AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR 2012

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES

JACK KINGSTON, Georgia, *Chairman*

TOM LATHAM, Iowa
JO ANN EMERSON, Missouri
ROBERT B. ADERHOLT, Alabama
CYNTHIA M. LUMMIS, Wyoming
ALAN NUNNELEE, Mississippi
TOM GRAVES, Georgia

SAM FARR, California
ROSA L. DELAURO, Connecticut
SANFORD D. BISHOP, JR., Georgia
MARCY KAPTUR, Ohio

NOTE: Under Committee Rules, Mr. Rogers, as Chairman of the Full Committee, and Mr. Dicks, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

MARTIN DELGADO, TOM O'BRIEN, BETSY BINA, and ANDREW COOPER,
Staff Assistants

PART 9

Page

Printed for the use of the Committee on Appropriations

PART 9—AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR 2012

AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR 2012

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES

JACK KINGSTON, Georgia, *Chairman*

TOM LATHAM, Iowa
JO ANN EMERSON, Missouri
ROBERT B. ADERHOLT, Alabama
CYNTHIA M. LUMMIS, Wyoming
ALAN NUNNELEE, Mississippi
TOM GRAVES, Georgia

SAM FARR, California
ROSA L. DELAURO, Connecticut
SANFORD D. BISHOP, JR., Georgia
MARCY KAPTUR, Ohio

NOTE: Under Committee Rules, Mr. Rogers, as Chairman of the Full Committee, and Mr. Dicks, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

MARTIN DELGADO, TOM O'BRIEN, BETSY BINA, and ANDREW COOPER,
Staff Assistants

PART 9

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

68–236 WASHINGTON : 2011

COMMITTEE ON APPROPRIATIONS

HAROLD ROGERS, Kentucky, *Chairman*

C. W. BILL YOUNG, Florida [1]
JERRY LEWIS, California [1]
FRANK R. WOLF, Virginia
JACK KINGSTON, Georgia
RODNEY P. FRELINGHUYSEN, New Jersey
TOM LATHAM, Iowa
ROBERT B. ADERHOLT, Alabama
JO ANN EMERSON, Missouri
KAY GRANGER, Texas
MICHAEL K. SIMPSON, Idaho
JOHN ABNEY CULBERSON, Texas
ANDER CRENSHAW, Florida
DENNY REHBERG, Montana
JOHN R. CARTER, Texas
RODNEY ALEXANDER, Louisiana
KEN CALVERT, California
JO BONNER, Alabama
STEVEN C. LATOURETTE, Ohio
TOM COLE, Oklahoma
JEFF FLAKE, Arizona
MARIO DIAZ-BALART, Florida
CHARLES W. DENT, Pennsylvania
STEVE AUSTRIA, Ohio
CYNTHIA M. LUMMIS, Wyoming
TOM GRAVES, Georgia
KEVIN YODER, Kansas
STEVE WOMACK, Arkansas
ALAN NUNNELEE, Mississippi

NORMAN D. DICKS, Washington
MARCY KAPTUR, Ohio
PETER J. VISCLOSKY, Indiana
NITA M. LOWEY, New York
JOSÉ E. SERRANO, New York
ROSA L. DELAURO, Connecticut
JAMES P. MORAN, Virginia
JOHN W. OLVER, Massachusetts
ED PASTOR, Arizona
DAVID E. PRICE, North Carolina
MAURICE D. HINCHEY, New York
LUCILLE ROYBAL-ALLARD, California
SAM FARR, California
JESSE L. JACKSON, JR., Illinois
CHAKA FATTAH, Pennsylvania
STEVEN R. ROTHMAN, New Jersey
SANFORD D. BISHOP, JR., Georgia
BARBARA LEE, California
ADAM B. SCHIFF, California
MICHAEL M. HONDA, California
BETTY MCCOLLUM, Minnesota

---

[1] Chairman Emeritus

WILLIAM B. INGLEE, *Clerk and Staff Director*

AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR 2012

TUESDAY, MARCH 1, 2011.

SECRETARY OF AGRICULTURE

WITNESSES

HON. THOMAS VILSACK, SECRETARY OF AGRICULTURE
KATHLEEN MERRIGAN, DEPUTY SECRETARY OF AGRICULTURE
JOSEPH GLAUBER, CHIEF ECONOMIST, DEPARTMENT OF AGRICULTURE
MICHAEL YOUNG, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Mr. KINGSTON. The subcommittee will come to order. Today we have as our first witness of the year the Secretary of Agriculture, the Honorable Tom Vilsack; Deputy Secretary Kathleen Merrigan; USDA's chief economist, Dr. Joe Glauber; and Mike Young, the USDA's budget director. We welcome all of you.

There are a lot of appropriation hearings taking place today, and for a while it looked like we may have to go ahead and do this one without any members, but Mr. Farr and I are here, so that is a quorum.

Mr. Secretary, we are always glad to have you on the Hill. We certainly enjoy working with you. And as a former state representative, I have a common background—at least, I served in the state legislature eight years. And both Mr. Farr and I and other members appreciate on the ground approach to governing, knowing that you know how so many of the programs work up close.

We are interested in your testimony today and want to work with you. We note that you have $1.3 billion less in discretionary spending less in fiscal year 2011, but there are some new investments which we may have to discuss, some research and export promotion, renewable energy, conservation, and rural infrastructure.

As you know, the interest on the national debt is set to climb from about $200 billion a year to $685 billion in the next seven years, basically a tripling. And I was quick to point out, both in Washington and back in my little briar patch in Georgia, that if you are looking for blame, all parties have fingerprints on them, Republicans, Democrats, and Independents. We have all run up the clock.

Most of the money is in the health and retirement programs. We know that. And yet both parties have been historically reluctant to touch those political sacred cows. I think that that time is coming near when we are going to have to do that. But in the meantime, discretionary money is going to continue to be squeezed. And so we have to look at all these programs together. And I am looking forward to working with you, as we have in the past several years already.

And with that, I would like to yield to Mr. Farr, the ranking member.

Mr. FARR. Thank you very much, Mr. Chairman. Congratulations on your first hearing of the new committee. And I am excited that we also have the chair and ranking Appropriations member, Mr. Dicks and Mr. Bishop, here as well.

I don't have an opening statement. I just wanted to comment on one thing that I am very interested in hearing, about your leadership in trying to bring this, for lack of a better word, rural strategy to America to re-look at rural communities in total about all of the effects of all the agencies on them, to try to do really effective recovery.

I know you have been working on more of a vision for rural America, and I want to see if we can use our appropriating process to make sure that we are hitting all the right buttons to make it work rather than just kind of a traditional let it rain. And maybe the tide will rise high enough to do something good for a lot. I think you have got a much more holistic approach to it, and I would appreciate hearing that.

But I have no other opening comment.

Mr. KINGSTON. Thank you, Mr. Farr.

Mr. Dicks.

Mr. DICKS. Thank you. Mr. Secretary, we are glad to see you here today with your group. And the one thing I hope you can touch upon as we go through this budget is we were on the floor with H.R. 1 here a week ago and made some significant cuts in food safety inspection. I hope you can, during your statement or in the questions, address that issue and what the impact would be on the Agriculture Department.

Mr. KINGSTON. Thank you, Mr. Dicks. And I want to welcome the former chair, Ms. DeLauro, here. I am now on your right and you are now on my left, as we have kind of always been anyhow. [Laughter.]

Ms. DELAURO. No, you really wanted to be on the left. What a difference a day makes.

Mr. KINGSTON. Would you like to say anything or just——

Ms. DELAURO. Oh, no, no, no.

Mr. KINGSTON. Well, I want to thank you——

Ms. DELAURO. I am just happy to be on the committee. I love this committee.

Mr. KINGSTON. Well, I want to thank you for your service as chair. You did a great job. We enjoyed working with you and your staff, and we hope to continue in that relationship.

My Georgia colleague, Mr. Bishop, we haven't recognized you. But if you want to say anything?

Mr. BISHOP. Let me just congratulate you on the chairmanship, and I look forward to working with you and the subcommittee as we have to make sure that America continues to produce the highest quality, the safest, the most economical food and fiber anywhere in the industrialized world. And of course, what we do here will determine whether that happens in that.

So I am very, very anxious to get to work and to hear from the Secretary and for our committee to move forward.

Mr. DICKS. Mr. Bishop, would you yield to me just for a second?

Mr. BISHOP. I would be delighted to yield.

Mr. DICKS. I too want to congratulate Congressman Kingston on becoming chairman. He and I have worked together on defense over the years, and I know he will take a hard and thoughtful approach to this committee's important work.

Mr. KINGSTON. Well, I thank both of you.

And with that, I want to yield the floor to the Secretary. But one last statement, one thing I want to say. You have been joined by your hometown or home state colleague, Mr. Latham. I knew he wasn't going to stand you up.

We are going to stick with the five-minute rule, as we have in the past. And we will go back and forth from majority to minority, so I will abide by that, and Mr. Farr will, and Mr. Dicks, and everyone else.

So with that, I would also like to ask anybody who has a BlackBerry or cell phone to please turn it off.

And Mr. Secretary, the floor is yours.

OPENING STATEMENT

Secretary VILSACK. Mr. Chairman, thank you very much, and I certainly appreciate the opportunity to be with the committee this morning.

Obviously, I would like to have the written testimony that we prepared submitted for the record. And rather than reading a statement, which is the tradition, I would just simply like to make one observation and then go to the questions that you all have.

Mr. KINGSTON. Without objection.

Secretary VILSACK. Yesterday I had the privilege of sitting in on the meeting that the President of the United States had with the nation's governors. It was an opportunity for the President to have interchange with the nation's governors.

And during the course of his remarks to the nation's governors, he said something which I think basically summarizes our challenge. And I say "our challenge" because I think we have a shared responsibility, a mutual responsibility, to craft a budget that reflects the values and the priorities of the American people, and particularly those who live, work, and raise their families in rural communities.

What the President suggested was that any budget decision, whether it is in the 2011 debate or the 2012 debate, really has to be a reflection of shared sacrifice and shared opportunity. And I think that that is an appropriate way to frame our conversation today.

There is no question that the budget that we submitted, the budget that you all are considering, reflects a good deal of sacrifice that will be asked of Americans, of those who live in rural communities. But there is also an opportunity for us to continue the growth and the expansion of the economy that we have recently seen in rural America as a result of a very strong agricultural economy and a reduction of the unemployment rate at a rate faster than the rest of the country.

So I look forward to working with the committee. Our team is assembled here and prepared to respond to the questions you have today. And if we can't get a full answer today, we will certainly be glad to supplement our conversation in writing.

[The information follows:]

For release only by the
House Committee on Appropriations

Statement by
Thomas Vilsack
Secretary of Agriculture
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives
March 1, 2011

Mr. Chairman and distinguished members of this Subcommittee, I appreciate the opportunity to appear before you as Secretary of Agriculture to discuss the Administration's priorities for the Department of Agriculture (USDA) and provide you an overview of the President's 2012 budget. I am joined today by Deputy Secretary Kathleen Merrigan, Joseph Glauber, USDA's Chief Economist, and Michael Young, USDA's Budget Officer.

In his State of the Union speech, the President laid out some of the challenges America faces moving forward as we compete with nations across the globe to win the future. We need to be a Nation that makes, creates and innovates so that we can expand the middle class and ensure that we pass along to our children the types of freedoms, opportunities and experiences that we have enjoyed. We also need to take some serious steps to reduce the deficit and reform government so that it's leaner and smarter for the 21st century.

The fiscal year (FY) 2012 budget we are proposing reflects the difficult choices we need to make to reduce the deficit while supporting targeted investments that are critical to long-term economic growth and job creation. To afford the strategic investments we need to grow the economy in the long term while also tackling the deficit, this budget makes difficult cuts to programs the President and I care about. It also reflects savings from a number of efficiency improvements and other actions to streamline and reduce our administrative costs. It looks to properly manage deficit reduction while preserving the values that matter to Americans.

In total, the budget we are proposing before this subcommittee is $130 billion, a reduction of $3 billion below the FY 2011 annualized continuing resolution. For discretionary programs, our budget proposes $18.8 billion, a reduction of $1.3 billion below the 2011 level. These decreases are achieved through reductions and terminations in a wide range of programs as well as proposals to achieve savings through streamlining our operations. These actions will allow us to focus limited resources on programs where we can achieve the greatest impact.

Further, we are proposing legislative changes to target reductions in farm program payments, which would save $2.5 billion over 10 years, while only affecting 2 percent of participants. The savings would come in addition to savings we have achieved through administrative improvements that reduced the error rate in farm program payments from 2 percent to under 0.1 percent as well as a partnership with the IRS to eliminate improper payments to wealthy individuals who exceed income eligibility criteria. In addition, legislation will be proposed to reduce premiums for the catastrophic coverage option under the crop insurance program providing a savings to taxpayers of $1.8 billion over 10 years.

These and other reductions must be made if we are serious about deficit reduction and being able to support the critical investments we need to make to secure our future.

At USDA, we haven't waited to begin reducing our expenditures. Last year we saved $6 billion through the negotiation of a new agreement for crop insurance, $4 billion of which will go to pay down the Federal deficit. And agencies across the Department have looked for ways to reform the way they do business – from reducing the number of visits a farmer has to make to our offices to get conservation services, to saving taxpayer dollars by operating our nutrition assistance programs with historic levels of accuracy.

I would now like to focus on some specific highlights in each of our major goals.

Assisting Rural Communities to Create Prosperity

Agriculture has generally fared well during the recent economic downturn, with farm income expected to be at almost record levels this year largely due to the productivity and hard work of American farmers and ranchers and growers. Further, agriculture continues to be one of the major sectors of the American economy that has a trade surplus. Our budget preserves a strong farm safety net, including a $4.7 billion farm credit program, about $150 million above the 2011 level. As I mentioned earlier, we are also proposing to better target farm payments by reducing the cap on direct payments and reducing over a three year period the Adjusted Gross Income eligibility limits. These actions would save $2.5 billion over 10 years.

Rural America offers many opportunities, but it also faces a number of challenges that have been experienced for decades. Rural Americans earn less than their urban counterparts, and are more likely to live in poverty. More rural Americans are over the age of 65, they have completed fewer years of school, and more than half of America's rural counties are losing population. In addition, improvements in health status also have not kept pace, and access to doctors and health services has been a key challenge in rural areas.

Within the context of a reduced total funding level, our budget proposes to focus resources on the most effective means to address the long term challenges facing rural communities and the Nation. A critical element is engaging with public and private partners to revitalize rural communities by expanding economic opportunities and creating jobs for rural residents.

For rural development programs, our budget proposes a total program level of roughly $36 billion supported by $2.4 billion in budget authority, a reduction of about $1.6 billion in program level and $535 million in budget authority. It also reflects the

Administration's efforts to utilize funding in the most cost-effective manner to achieve our goals.

A number of difficult decisions were made, including a reduction of $390 million in budget authority from the 2011 level in housing programs. The budget eliminates funding for a number of loan and grant programs, including self-help housing grants and low income housing repair loans. We are also reducing funding for direct single family housing loans and focusing on maintaining support for single-family housing loan guarantees at a program level of $24 billion. This level of assistance can be provided with no budget authority by continuing a fee structure that fully supports the subsidy cost of the program. We are also reducing the water and waste loan and grant program by $62 million in budget authority. Associated with these program reductions, we are reducing administrative funding and staffing levels. These and other actions allow us to focus limited resources on meeting priority investment needs in rural America.

Regional Innovation Initiative:

One of these priority investments is in a new approach we have developed to ensure USDA supports rural communities who choose to engage in regional economic strategies. This approach recognizes that attempting to address the challenges faced by rural communities through a generic approach will not be sufficient. Instead, USDA needs to respond to grassroots local priorities and recognize that each rural region needs a distinctive strategy that reflects its unique strengths, its particular mix of industry clusters, and which integrates its regional economic assets.

In 2010, to support rural communities' efforts to collaborate regionally, USDA used the Rural Business Opportunity Grant program to provide funding to seven identified regions to support plans focused on supporting job creation, local or regional food systems, renewable energy, capitalizing on new broadband deployment, and the utilization of natural resources to promote economic development through regional planning among Federal, State, local and private entities. Funding has been provided to multi-jurisdictional regions in California, Iowa, North Dakota, Oregon, South Carolina, Vermont, and Washington to develop regional plans to enhance economic opportunities. USDA is working department-wide to determine how it can support the priorities of the people in the region. USDA is also working with other federal partners to ensure that these rural regions have access to other federal programs that support their regional strategies. By creating a regional focus and increasing collaboration with other Federal agencies, resources can be leveraged to create greater wealth, improve quality of life, and sustain and grow the regional economy.

For 2012, USDA proposes a Regional Innovation Initiative that works through existing programs to fund regional pilot projects, strategic planning activities, and other investments to improve rural economies on a regional basis. USDA would target up to 5 percent of the funding within 10 existing programs, approximately $171 million in loans and grants, and allocate these funds competitively among regional pilot projects tailored to local needs and opportunities. The approach will support projects that are more viable over a broader region than scattered projects that serve only a limited area. It will also help build the identity of regions, which could make the region more attractive for new business development, and provide greater incentives for residents to remain within their home area.

The 2012 budget specifically provides an increase of $5 million for the Rural Business Opportunity Grant program to foster regional collaboration that encourages regions to engage in strategic regional economic planning that identifies the needs of a defined rural region. In addition, an increase of $2.1 million is included for the Rural Community Development Initiative to provide technical assistance to communities to develop housing or community facilities projects.

Facilitating the Development of Renewable Energy:

A major Administration priority is continuing to make investments in building a green energy economy. Last year, the President laid out his strategy to advance the development and commercialization of a biofuels industry. At the center of this vision is an effort to increase domestic production and use of renewable energy. Advancing biomass and biofuel production that holds the potential to create green jobs is one of the many ways the Obama Administration is working to rebuild and revitalize rural America. By producing renewable energy – especially biofuels – America's farmers, ranchers and rural communities have incredible potential to help ensure our Nation's energy security, environmental security, and economic security. Through investments in energy efficiency and renewable energy sources, farms and rural small businesses across the country can reduce their energy consumption and energy expenses. In 2009 and 2010, USDA has helped nearly 4,000 rural small businesses, farmers and ranchers save energy and improve their bottom line by installing renewable energy systems and energy efficiency solutions that have produced or saved a projected 4.3 billion in kWh– enough energy to power 390,000 American homes for a year.

In 2012, USDA plans to invest over $900 million in discretionary and mandatory funding to improve the entire supply chain of biofuels and bioenergy, from research and development, to production and commercialization. In addition, the budget includes $6.1 billion for electric loans, which will be used to support renewable energy and the development of clean burning low emission fossil fuel facilities to support renewable energy deployment and clean energy technology.

Promising Market Opportunities:

Developing and supporting market opportunities and outlets for agricultural producers helps to promote jobs and prosperity in rural America. Over the past year, we have supported efforts to build and strengthen regional and local food systems through the "Know Your Farmer, Know Your Food" efforts. Our goal is to build a link between local production and local consumption, which is particularly beneficial to small and mid-sized farmers.

In FY 2012, USDA will continue to support efforts to expand promising market opportunities with $9.9 million in funding for the National Organic Program, which will be used to strengthen oversight and enforcement and $7.7 million for Transportation and Market Development activities that will stimulate development of regional food hubs and marketing outlets for locally and regionally grown food .

Furthermore, USDA, working together with the Departments of Health and Human Services and Treasury will implement the Healthy Food Financing Initiative (HFFI) to provide incentives for food entrepreneurs to expand the availability of healthy foods by bringing grocery stores, small retailers, and farmers markets selling healthy foods to underserved communities. HFFI will make available over $400 million in financial and technical assistance to community development financial institutions, other nonprofits, public agencies, and businesses with sound strategies for addressing the healthy food needs of communities. For USDA, the budget requests $35 million to support local and regional efforts to increase access to healthy food, particularly for the development of grocery stores and other healthy food retailers in urban and rural food deserts and other underserved areas. In addition, USDA will make other funds available by encouraging and rewarding relevant grant and loan applications through existing Rural Development and Agricultural Marketing Service programs.

Broadband:

In his State of the Union address, President Obama established a goal to deploy the next generation of high-speed wireless coverage to 98 percent of all Americans. In the last year and a half, with funding from the Recovery Act we have done more to bridge the digital divide for rural Americans than many ever thought possible. The Recovery Act is funding will enable around 7 million rural Americans to connect to one of 285 last-mile, 12 middle-mile, or four satellite projects funded by USDA. On top of that, over 360,000 businesses and 30,000 community service organizations such as hospitals, schools and public safety agencies will be connected to a high-speed digital future. USDA will continue to build on the success of funding provided through the American Recovery and Reinvestment Act (Recovery Act) by making loans and grants under the authorities provided by the Farm Bill. Our budget continues to provide support for these important efforts with $17.9 million for grants to support local broadband access in rural communities and funding for loans with balances available from prior year appropriations.

Trade Expansion:

Expanding access to global markets makes a critical contribution to our efforts to enhance rural prosperity by providing opportunities for increased sales and higher incomes. During the past year, we have worked diligently to remove trade barriers and open new markets. Through our efforts, we were able to regain access for our poultry exports to Russia, after Russia introduced a ban on the use of chlorine washes in the processing of poultry. Similarly, we worked to expand market access for pork in Russia and China by addressing residue and disease issues, and we continue to engage China on reopening that market for our beef exports. Also noteworthy, we entered into a Memorandum of Understanding with China that addresses quality and sanitary and phytosanitary policy issues that will help to facilitate our soybean exports. This is a very significant step as China is now our largest overseas market for soybeans, and the significant growth we have experienced in that market -- in soybeans and many other products -- has helped China to emerge as our largest agricultural export market.

Our trade promotion activities support the National Export Initiative (NEI), a government-wide effort to double U.S. exports over the next five years in order to spur economic growth and employment opportunities. Every $1 billion worth of agricultural exports supports an estimated 8,000 jobs, so we know that when we succeed in expanding markets we are creating real benefits for our workforce. To bolster these efforts, the budget proposes an increase of $20 million for the Foreign Agricultural Service to support an expansion in trade monitoring and enforcement activities, exporter assistance and education efforts, support for state organized trade missions, and in-country market access and promotion activities.

Ensuring private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources

USDA continues to be a major partner in advancing the Administration's conservation and environmental agenda through support of the conservation partnership and the strategic targeting of funding to high-priority regional ecosystems. The budget request will ensure that the conservation partnership remains strong among Federal agencies, State and local governments, Tribes, industry and farmers. This broad partnership has proven to be a resilient and effective mechanism for meeting the Administration's water policy goals and helping protect the Nation's 1.3 billion acres of farm, ranch and private forestlands.

The budget requests nearly $900 million in discretionary funding for conservation activities, primarily technical assistance that provides comprehensive conservation planning for the Nation's farmers, ranchers and private forest landowners. This reflects a reduction of $168 million and related staff-years for the elimination of the watershed operations and rehabilitation programs, conservation operations earmarks, and the Resource Conservation and Development program.

The 2012 budget advances resource protection by strategically targeting funding to high-priority regional ecosystems and initiatives. This includes $15 million to implement the Strategic Watershed Action Teams initiative, which will enhance targeted technical assistance in priority watersheds for a period of 3 to 5 years with the goal of reaching 100 percent of the landowner base in each watershed eligible for Farm Bill conservation program assistance. The goal of this initiative is to hasten environmental improvement while keeping production agriculture competitive and profitable.

To improve the delivery of conservation technical assistance, which is a field staff-based activity, the budget includes $11.3 million to fund the Conservation Delivery Streamlining Initiative. This initiative will develop new business processes designed to simplify the planning process and maximize the amount of time USDA technicians spend in the field helping farmers. These funds will improve how we deliver conservation planning and financial assistance and help farmers with practice installation.

Finally, the budget includes an increase of $7 million for the Conservation Effects Assessment Project, to enhance the scientific understanding of the environmental effects of conservation practices on agricultural landscapes. This knowledge will help us improve the design and implementation of conservation programs.

The 2012 budget also includes $5.8 billion in mandatory funding to support cumulative enrollment of more than 302 million acres in Farm Bill conservation programs, an increase of nearly 8 percent over 2011, for conservation programs authorized in the 2008 Farm Bill, such as WRP, Environmental Quality Incentives Program, and the Conservation Reserve Program.

Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security

USDA works to improve global food security through a wide variety of activities, such as providing food and technical assistance that supports the development of sustainable agricultural systems in developing countries, by facilitating the adoption of biotechnology and other emergent technologies that increase agricultural production and food availability, and by working to advance internationally accepted, science-based regulations that facilitate trade. These efforts are important because over one billion people worldwide face hunger and malnutrition every day, and we know that failing agricultural systems and food shortages fuel political instability and undermine our national security interests.

USDA is an active partner in the Administration's global food security initiative – Feed the Future – and we have been working closely with the State Department, U.S. Agency for International Development (USAID), and others to further its objectives. As an implementing partner, USDA can offer expertise in basic and applied research that benefits both the United States and developing countries; in-country capacity building and technical assistance; and market information and economic analysis. For example, during the past year, USDA has worked with USAID to develop the Norman Borlaug Commemorative Research Initiative, a mechanism designed to increase cooperation and collaboration between our two agencies in managing research strategies and their implementation. Through this mechanism, we will collaborate on targeted, high impact research priorities, such as wheat rust, legume productivity, livestock diseases, mycotoxins, and human nutrition, which can have far-reaching benefits to farmers worldwide.

An important means to assist developing countries to enhance their agricultural capacity is by providing training and collaborative research opportunities in the United States, where participants can improve their knowledge and skills. The budget provides increased funding for the Cochran and Borlaug Fellowship programs, which bring foreign agricultural researchers, policy officials, and other specialists to the United States for training in a wide variety of fields. Under our proposal, as many as 600 individuals will be able to participate in these programs and bring this knowledge home to benefit their respective countries.

Foreign food assistance programs remain a core component of our efforts to enhance global food security. The 2012 budget includes over $2 billion of funding for both emergency and non-emergency international food assistance programs carried out by USDA and USAID. Although funding for the McGovern-Dole International Food for Education and Child Nutrition Program is reduced by $9 million, the program will assist as many as five million women and children during 2012.

As the world population grows and the demand for food with it, we must look to new technologies for increasing production, including biotechnology. Biotechnology can expand the options available to agricultural producers seeking solutions to a variety of challenges, including climate change. However, prudent steps must be taken to ensure that biotech products are safely introduced and controlled in commerce. For 2012, the budget includes increased funding to strengthen USDA's science-based regulatory system and ensure that we can provide timely, sufficient review of the expanding volume and complexity of biotechnology applications. During the past fiscal year, USDA continued to see an increase in workload due to this expanding industry. Notably, USDA received 44 percent more requests for field testing of genetically engineered plants than were received in FY 2009

Ensuring that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals

Nutrition Assistance:

The budget fully funds the expected requirements for the Department's three major nutrition assistance programs – WIC, the National School Lunch Program, and SNAP.

National School Lunch Program participation is estimated to reach a record-level again in 2012, 32.5 million children each school day, up from about 31.6 million a day in 2010. The budget proposes an increase of $9 million to ensure USDA makes progress to decrease the prevalence of obesity among children and adolescents, and to improve the quality of diets. The increase will allow USDA to continue implementing the scientific, evidence-based nutrition guidance and promotion of the 2010 update of the *Dietary Guidelines for Americans*.

The budget includes $7.4 billion for WIC, which will support the estimated average monthly participation of 9.6 million in 2012, an increase from an estimated 9.3 million participants in 2011. The request is $138 million above the 2011 annualized continuing resolution. This includes an increase for the breastfeeding peer counseling program and a doubling of the breastfeeding program performance bonus funding. WIC State nutrition services and administrative activities are funded at a level sufficient to ensure effective program operations along with increased emphasis on IT and EBT.

Participation in SNAP is estimated to average about 45 million participants per month in 2011, and is projected to fall slightly in 2012. The budget includes over $85 billion, including Recovery Act funding, to fund all expected costs. Legislation will be proposed to extend the Recovery Act provision that waives time limits for Able-Bodied Adults Without Dependents (ABAWDs) for an additional fiscal year. In total, this change would add about $92 million to recipient benefits and SNAP program costs in 2012. In addition, the 2012 budget proposes to maintain the increase for SNAP benefits authorized by the Recovery Act for five months, increasing outlays in 2014 by $3.3 billion.

Food Safety:

The budget includes $1 billion for the Food Safety and Inspection Service, a reduction of about $7 million below 2011. The requested level is adequate to fully fund inspection activities and including an increase of $27 million to improve our capability of identifying and addressing food safety hazards and preventing foodborne illness. These increases are more than offset by reductions due to streamlining agency operations, reducing lab expenses, and recognizing that implementation of a catfish inspection program will not occur in 2012.

Minimizing the Impact of Major Animal and Plant Diseases and Pests:

To protect agricultural health by minimizing major diseases and pests of food crops and livestock, the budget includes $837 million, a reduction of $76 million, in appropriated funds for the Animal and Plant Health Inspection Service (APHIS). We have taken a close look at the APHIS budget and have proposed a number of program reductions and redirections to ensure that scarce resources are being used prudently. The budget achieves savings through a variety of means. It includes decreases for activities where eradication campaigns have been successful, such as cotton pests, pseudorabies, and screwworm, and for pests and diseases where eradication is not likely, such as tropical bont tick. Savings are also possible in the avian health program without affecting overall performance. Further, the budget achieves other savings by acknowledging the role of the producer to engage in best management practices to reduce certain diseases, such as Johne's Disease. These savings allow us to propose increases for selected pests, including the light brown apple moth and the European grapevine moth.

Research

Scientific research is essential for our prosperity, health, environment and our quality of life. By investing in the building blocks of American innovation, we will help ensure that our economy is given all the necessary tools for new breakthroughs, new discoveries and the development of new industries. While progress will not come immediately, our investments today will be a catalyst which leads to answers to problems of national importance, including developing alternative energy sources, improving the nutrition and health of America's children, and developing solutions to the most urgent environmental problems.

The 2012 budget requests approximately $1.2 billion in discretionary funding for the National Institute of Food and Agriculture (NIFA), a decrease of $141 million from 2011. The budget eliminates $141 million in Congressional earmarks as well as makes selective reductions in ongoing programs, including a reduction of five percent in formula funding for 1862 Land Grant Institutions and the elimination of the animal health and disease formula program. The budget continues to move toward the use of competitive grants to generate the solutions to the Nation's most critical problems. A major element in NIFA's research budget is an increase of $62 million for the Agriculture and Food Research Initiative (AFRI) -- the premier competitive, peer-reviewed research program for fundamental and applied sciences in agriculture. This increase, which brings the total AFRI funding to $325 million, will focus on sustainable bioenergy, global food security, food safety, human nutrition and obesity prevention, and global climate change, while still supporting foundational research.

The 2012 budget for the Agricultural Research Service is approximately $1.14 billion, a net decrease of $42 million. This reduction is achieved through the elimination of Congressional earmarks and other lower priority projects that total about $101 million. These reductions help fund program increases totaling approximately $59 million for high-priority research. Major initiatives include improved genetic resources and cultivars leading to better germplasm and varieties with higher yields, enhanced disease and pest resistance, and resilience to weather extremes such as high temperature and drought. The budget will also fund several initiatives to support research on breeding and germplasm improvement in livestock which will enhance food security and lead to the development of preventive measures to combat diseases and thereby increase production. These initiatives have great potential to help ensure an abundant, safe, and inexpensive supply of food to meet global demand. Additionally, the budget funds research initiatives that will accelerate the development and deployment of dedicated energy feedstocks, thereby reducing dependence on foreign oil and expanding the opportunities for American farmers. Finally, the budget supports projects that focus on food safety, and human nutrition and obesity prevention.

The 2012 budget request for the National Agricultural Statistics Service includes an increase of nearly $12 million in initiatives, which is offset by $8.3 million in terminations of low-priority programs. This includes the elimination of a land tenure survey largely comprised of farm operators that are accounted for in the Agricultural Resource Management Survey. The 2012 budget includes full funding to support the third year of the 2012 Census of Agriculture's five year cycle and to improve the data quality of the County Estimates program which is used within the Department to administer crop insurance programs, as well as crop revenue support programs, emergency assistance payments, and the Conservation Reserve Program.

Finally, $8.4 million is included for initiatives within the Economic Research Service, including an initiative for behavioral economics that will yield information and analysis that enhances decision-making on economic and policy issues related to agriculture, food, farming, natural resources, and rural development. These increases are partially offset by a $4.9 million reduction from lower priority projects.

Management Initiatives

To reform USDA so it is leaner, more efficient and ready for the 21st century, we will support efforts to better streamline operations and deliver results – at lower cost – for the American people. The budget reflects the Department's commitment to increasing program delivery effectiveness by implementing management improvements, administrative efficiencies, and IT systems that modernize the USDA workplace.

A significant streamlining and efficiency measure being proposed is a structured buyout of 504 Federal headquarters and related employees – 10 percent – of the Farm Service Agency. This restructuring effort is expected to result in net savings of $27 million in 2012 and total savings of $174 million through 2015. In addition, we are proposing a further savings of $14.4 million in FSA administrative expenses through efficiencies related to advisory contracts, travel expenses, printing and supplies. It is also critical that we continue to invest in modernizing the FSA IT system to provide a secure, modern system capable of supporting web-based program delivery.

One of the key components for increasing USDA effectiveness is focused on creating a high performing and diverse workforce across the Department. Through USDA's Cultural Transformation initiative, the Department and its workforce are being revamped to increase job satisfaction, training opportunities, and career development possibilities. USDA will focus on improving leadership development, labor relations, human resources accountability, and veterans and other special employment programs. These efforts will greatly improve the productivity of the Department, resulting in better service to USDA constituents and more value for American taxpayers. A $3 million increase is proposed to strengthen our human resources transformation initiatives and veterans hiring efforts.

USDA also strives to improve the efficiency with which it purchases over $5 billion in goods and services annually. These acquisitions support USDA program delivery, including food purchases for the nutrition programs and IT purchases in support of business operations. Regardless of what is being purchased, USDA relies upon a workforce of acquisition professionals to efficiently and effectively procure the goods and services needed to ensure continued service delivery by the Department. As part of a government-wide initiative pursuant to the President's Memorandum on Government Contracting, USDA is requesting funding of $6.5 million for training, workforce development activities, and supporting IT systems. Such efforts will greatly improve the workforce's ability to negotiate more favorably priced contracts and manage contract costs more effectively. These improvements will support USDA's actions to implement its acquisition savings plan that includes a projected 7-percent reduction in non-commodity acquisitions in FY 2011, with additional reductions in the out-years.

We are also taking additional steps to address the unfortunate history of civil rights in USDA. As you know, since coming into office, this Administration has made great strides in resolving claims of discrimination by reducing the backlog of complaints and by working to settle lawsuits brought against the Department by black and Native American farmers and ranchers. USDA has worked closely with Congress to secure the funding necessary to address the Pigford II class action lawsuit. The Department has also been working to resolve other discrimination claims such as those being brought by women and Hispanic farmers and ranchers. In FY 2012, we are requesting funding under the Farm Service Agency to pay the administrative costs of resolving existing civil rights claims, and to provide settlement for discrimination claims filed under the Equal Credit Opportunity Act where the statute of limitation has expired. The

Department remains committed to taking these actions as part of our commitment to create a New Era of Civil Rights in USDA.

Ensuring that the Department and its programs are open and transparent is also a key component of the transformation effort. As a result, USDA is proposing to expand the Office of Advocacy and Outreach (OAO), which was established by the 2008 Farm Bill, to improve service delivery to historically underserved groups and will work to improve the productivity and viability of small, beginning, and socially disadvantaged producers. The outreach efforts led by OAO will help to ensure that all persons eligible to participate in USDA programs will have the opportunity and the information necessary to benefit from the services delivered by the Department.

****

The President told us that winning the future will require a lot of hard work and sacrifice from everyone. The President's budget reflects sacrifice, but provides the funding to achieve his vision for a strong America. I look forward to working with this Subcommittee to help build a foundation for American competiveness for years to come so that we pass on a stronger America to our children and grandchildren.

I would be pleased to take your questions at this time.

###

INITIATIVES

Mr. KINGSTON. Well, thank you, Mr. Secretary. And let me begin with asking you a question about some of your new initiatives.

As you know, the House originally said we are not going to have any earmarks. And then the Senate came along and eliminated about $400 million in earmarks. But it is my understanding that that money, rather than go into deficit reduction, the administration plans to use that to fund new initiatives.

Is that correct, or am I missing something? And if that is not correct, where does the offset for new initiatives come from?

Secretary VILSACK. Depending upon the mission area, Mr. Chairman, we can establish for you that the elimination of earmarks, it does in fact go to reducing our discretionary spending. Let me take the National Institute of Food and Agriculture (NIFA), for example. We obviously are very interested in increasing competitive grants under the Agriculture and Food Research Initiative (AFRI) program because we think that that is the most significant and best way to leverage resources with our universities in the private sector.

Having said that, that increase in AFRI research is offset by the elimination of earmarks that have been designated by Congress in the past. And the net result of NIFA is a reduction of $138 million over what it was in 2011, as proposed.

In the Agricultural Research Service (ARS), we increase commitments to regional biofuel feed stock research because we think that is appropriate, to expand an industry that we believe has great potential for rural America in terms of job growth and providing additional opportunities and income for farmers. That is offset by $41 million in earmarks that have been eliminated under the ARS portion of the budget.

So I could go through each line item of the budget, each area and mission area. But I think what you will find is the Animal and Plant Health Inspection Service (APHIS) earmarks basically offset some of the marketing and regulatory programs that we are proposing to increase because of invasive species and pests and disease that we think have significant impact on the economy of particular crops.

So I think we could go through all of these. But I can assure you that the bottom line is a net reduction in discretionary spending, which the President has directed us to do and I know the Congress is interested in seeing as well.

Mr. KINGSTON. So the money, though, does come from what really has already been eliminated, in that the earmarks aren't there. Is that correct?

Secretary VILSACK. We were working off of a budget that included specific allocations for projects—for example, specific research projects, for example, where money was being accumulated. That has been reduced. We made an effort to try to prioritize, as best we could, programs which we thought either—let's take APHIS, for example.

We prioritized programs in APHIS where we thought perhaps we had already made sufficient progress, or perhaps we had based our view on an eradication strategy, when in fact the science would tell us that eradication is probably not going to work, so we need a containment strategy. We tried to prioritize as best we could. Obviously, Congress is going to have a potentially different set of priorities, but this is a starting point for conversation and discussion on a budget.

Mr. DICKS. Mr. Chairman.

Mr. KINGSTON. Yes.

Mr. DICKS. If you would yield, just to ask a question on this point.

The money you are talking about is fiscal year 2010 money, isn't that correct, where the administration made a decision to not spend the earmarked funding until they could see what happened with the 2011 budget?

Secretary VILSACK. It is correct it is the 2010.

Mr. DICKS. So that is the money we are talking about. And so the earmarks were not done, but that money was still there. How much was that amount?

Secretary VILSACK. Well, it depends on which mission area you are talking about. If I can ask Mike.

Mr. DICKS. Thank you for yielding.

Mr. KINGSTON. Yes. Let me ask the gentleman a question because it is my impression that the President's budget has already acknowledged that earmarks would be gone, and therefore that money is not in there.

Mr. DICKS. In 2012, right?

Secretary VILSACK. Correct.

Mr. KINGSTON. So then this would just—those increases actually are not offset because that money is not in the budget.

Secretary VILSACK. In some cases, Mr. Chairman, there was money that was allocated in previous budgets that is being essentially wiped out, if you will.

CROP INSURANCE

Mr. KINGSTON. Well, let me ask you another question. You had talked about the crop insurance savings being $6 billion.

Secretary VILSACK. Yes.

Mr. KINGSTON. Four billion went to deficit reduction. Where did the other two go?

Secretary VILSACK. The other $2 billion portion of it went into expanding crop insurance products for range and pasture and grassland areas. Roughly 14,000 additional policies have been sold as a result of that expansion.

A portion of it is going to go to a premium reduction program for good performers to encourage——

Mr. KINGSTON. Mr. Secretary, my own time has expired and I have to call the clock on me. But I get the gist of what you are saying.

Mr. Farr.

RESEARCH FACILITIES

Mr. FARR. I will follow up a question on that. So all of the money that went through earmarks, for example to build facilities, have been wiped out for your ag research stations?

Secretary VILSACK. That is correct. And the reason—and I understand that there is obviously a great deal of interest in research, and you specifically have a great deal of interest in it, as you should.

The problem has been that we have not really prioritized these research projects, and what we are going through right now with ARS is a discussion and a review and a study of exactly how to prioritize research and research facilities so that we make decisions based on what we think is in the best national interest, as opposed to something that has been earmarked specifically by a Member of Congress in the past and which the administration essentially agreed to in the past.

Mr. FARR. So even meritorious earmarks that will pass that test will——

Secretary VILSACK. Well, I think there is no question that there is a need for improved research facilities in this country. And there is no question that we are going to have to invest in those facilities. Research is extremely important in terms of a multitude of areas—to rebuild rural America, to make sure that we continue to invest in crop productivity and livestock protection, and so forth.

So there has to be research facilities. But my belief is that you have got to prioritize, and you can't prioritize if you continue to provide small amounts of money to build up an account that, over time, eventually gets to a point where you can build a facility with it.

Mr. FARR. And once that decision is made that you have set these priorities, then where will the money come from?

Secretary VILSACK. Well, it will come from essentially whatever you do with budgeting. You have got to make decisions and you have got to establish priorities. And if in year 2013 or 2014, whatever the year might be, we make a determination that four or five research facilities are extremely important to be done, then it will be up to us to find resources in the budget to offset or additional income revenue sources to provide the resources to build those facilities.

Mr. FARR. Will you be working with other federal agencies like the Food and Drug Administration—FDA—to see where you might collaborate in research facilities?

Secretary VILSACK. We do, and we are working very closely right now with the Department of Homeland Security on a facility, a specific facility in Kansas. So yes.

Mr. FARR. So those factors will go into your prioritization as what other partners you have in——

Secretary VILSACK. Partners, and I think it is fair to say that to the extent that we become, I think, creative about leveraging resources—I mean, we are getting to a point now where I think we have to be very careful about money we spend. And if we are able to leverage those resources with additional investment outside of government, that is something that—that is a factor that also ought to be considered.

Mr. FARR. Well, I appreciate that approach. I always thought that that might be the approach you have used in the past. But I really resent the fact that you have worked many, many years to try to build up an account to build a facility that I think will pass all the scrutiny that you have just outlined, and then have to start all over again.

Secretary VILSACK. Congressman, I understand the frustration. All I can say is that when I came into this office, there had not been a review or prioritization of these facilities at all, to my knowledge, and that we are in the process of conducting that right now, which I think is the prudent approach.

Mr. FARR. Yes. I think it is a prudent approach. I just don't like throwing the baby out with the bath water.

Secretary VILSACK. Well——

RURAL STRATEGY FOR AMERICA

Mr. FARR. Would you for a moment just explain to the committee what you are doing in this kind of rural—what you explained to me about the idea of looking at a rural strategy for America—remember, your comment that rural America has not been in a recession, it has been in a depression for about the last 10 years—your concept of revitalizing rural America?

Because in hearing that, I look at this that you are going to zero out the Resource Conservation and Development Program. I always think, is that being part of an effective strategy for rural America, and wonder why you have decided to zero that out.

Secretary VILSACK. Well, conservation spending overall is going to increase when you compare it to the authorized level in the Farm Bill. We will increase over what we had last year because it is part of the strategy of rebuilding our rural economy.

The greater the resources invested in conservation, the greater the chances are that you can expand outdoor recreation opportunities, which are a significant strategy for rebuilding America. You have to prioritize. I mean, we are faced with constraints, and we tried to prioritize where we thought the best bang for the conservation buck could be obtained.

Some of the smaller programs had to go. Some of the guaranteed loan programs in conservation had to go. But EQIP was increased. We continue to promote the Conservation Reserve Program—CRP—which is another place where the crop insurance money went, Mr. Chairman, which is what I would have said if my time had not expired.

Mr. KINGSTON. The gentleman's time has expired.

Mr. Latham.

Mr. LATHAM. Well, thank you, Mr. Chairman, and welcome, Secretary.

FARM BILL

We are starting the process of writing a new Farm Bill, and I just wondered if you had set out priorities. Or what do you envision as far as changes going forward?

Secretary VILSACK. Representative, I think it is fair to say that we recognize the responsibility that Congress has in writing the Farm Bill, and we stand ready to provide the technical assistance and support the Congress needs to write a good Farm Bill.

I can't say that we have established priorities because we see this as a collaborative process. We have set in motion a process within USDA to begin taking a look at current Farm Bill provisions to determine if there are things that are inefficient, ineffective, complex, confusing, things that need to be straightened out, amplified, modified, so that we have a good list of those programs.

And then secondly, I think Bob Stallman, at a recent Farm Bureau meeting in Atlanta, I think, summarized it fairly well. I think we are confronted—and I say we—are confronted with the challenge—Do we want a safety net system that provides some resources to farmers on an annual basis, regardless of how good the agriculture economy might be on that particular year, as opposed to something that would provide significant help and assistance when it is most needed?

And I think that is one of the fundamental questions that has to be answered. We obviously believe that there is a move towards risk management, and more appropriate risk management techniques, and that is reflected, obviously, in our proposal to reduce some of the direct payments to some of the higher income farming operations.

But I would say part of our priority is also on this issue that Representative Farr began to address, and that is, how do we rebuild the rural economy? I think an expansion of broadband is part of that. I think conservation is part of it. And I think clearly, in my view, biofuels and renewable energy is a significant part of that and needs to be reflected in the Farm Bill.

Mr. LATHAM. Are you planning a series of hearings around the country? Has there been a schedule? Because it is going to start pretty quick.

Secretary VILSACK. Right. I don't think that we are going to replicate what happened in the past, which is the administration doing a series of hearings and then coming up with its own Farm Bill. Again, I think we see this as a collaborative process.

I am sure that we will be out in the field, if you will, listening to folks and getting input. But I don't think it will be quite done in the same way that Secretary Johanns did it when he was in this position.

Mr. LATHAM. I would just hope that it is policy-driven, which the last Farm Bill was. It tried to determine policy and then fit the dollars in with it. The previous Farm Bill, basically, was all about the number of dollars and then trying to fit policy into that. It was reverse. I mean, I think the policy part comes first myself.

Secretary VILSACK. Well, you know, the reality is that you need both. You need the right policy and you obviously——

Mr. LATHAM. But the good policy is—that is where we are.

Secretary VILSACK. I don't disagree with that.

Mr. LATHAM. How are we doing?

Mr. KINGSTON. You have a minute, almost two minutes.

Mr. LATHAM. Oh, that is plenty of time.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION RULE

The new GIPSA rules that are coming down, I have real concerns about the impact that is going to have on a lot of producers. Tell us—you are going to do an economic analysis of the impact.

Secretary VILSACK. Yes.

Mr. LATHAM. Where is that, and is that going to be subject to peer review?

Secretary VILSACK. We made the decision to open the proposed rule for comment in an effort to try to better shape the economic analysis that would take place. We received, I believe, over 60,000 comments, roughly 30,000 of them unique. They are being categorized and classified and put into categories.

When that process is completed, Joe Glauber will use that as a basis of putting together an appropriate team, and an analysis will be done. A thorough analysis will be done. We are anxious to obviously get this done in as appropriate and as thoughtful a way as possible, and we think we have had a substantial amount of input on this already.

We recognize there are concerns, but we also have heard—when I traveled around the country with the competition hearings with Attorney General Holder, we heard a lot of concerns about the current system and the fairness of it. What we are really trying to do is establish a fair system and a transparent system.

Mr. LATHAM. I would just hope that we have enough time to have peer review to look at it. Sometimes you have some dramatic unintended consequences. I was just in Marshalltown last Friday. I toured the former Swift plant there, and the concern they have is right now they are paying additional, but they get over half their hogs from one source. They are all uniform. It is economically advantageous for them as far as processing to have that type of product coming through.

I am more concerned about the little guy out there because I think he is going to be put at a real disadvantage long-term.

Secretary VILSACK. That is not our intent.

Mr. KINGSTON. The gentleman's time has expired.

Mr. Dicks.

Mr. DICKS. Thank you.

FOOD SAFETY AND INSPECTION SERVICE

I wanted to ask you about food safety inspection and the effect of H.R. 1 on the Department. The Food Safety and Inspection Service—FSIS—is responsible for safety of domestic and imported meat and poultry. As noted above, H.R. 1 would hold funding for the FSIS to the 2008 levels.

The administration estimates that this would require a furlough of all FSIS employees, including all inspectors, for 30 to 47 working days. This would have amounted to 20 to 30 percent of the working days left in the fiscal year if the bill were enacted on March 4th.

Without inspectors available, meat and poultry plants would be legally required to stop operating. The administration estimates that the economic loss from stopping plant operations at $11 billion. It also expects that consumer prices for meat and poultry would rise with curtailed supply.

Are those comments accurate?

Secretary VILSACK. Representative, I think it is fair to understand that the FSIS portion of our budget is predominately personnel. Predominately personnel. We have done a study recently that is reflected in our 2012 appropriation request in which we could, obviously, given enough time, adjust our workforce a bit without necessarily resulting in closures of facilities.

But if you impose upon FSIS a significant reduction and you give us less than a fiscal year, if you give us six months or five months in which to manage that reduction, you are going to see personnel reductions and you are going to see impacts, obviously, on facilities.

Our hope and belief is, honestly, the confidence that we have in all of you, is that hopefully that won't happen, that there won't be a reduction of that magnitude, and that there won't be any kind of shutdown or interruption of government.

Mr. DICKS. Well, we hope that you are right and that in a working-out between the House and Senate on this issue, that this can be resolved in a positive way.

WATER AND WASTE

Under the Water and Waste Direct Rural Utility Services, we see some very significant cuts, from—in 2011 was $1,022,000,000 down to $770,000,000 minus $251 million. Grants are cut from $469 million to $409 million. These are programs that are absolutely essential in rural America. And I know we have to make some reductions, but are you concerned about what the impact of these cuts will be on rural programs?

Secretary VILSACK. Well, the reality is we are always concerned. Having said that, I think it gets back to my opening comments, Representative. I think what we are faced with here is a balance between shared sacrifice and shared opportunity.

These water projects are important to the communities involved, and we did a substantial number of them and are in the process of completing a substantial number of them as a result of the Recovery Act. Well over 800 projects were funded through the Recovery Act.

And so it is obviously important to the community. We will do the best we can of leveraging those resources at whatever level Congress ultimately decides to appropriate.

Mr. DICKS. Right. Well, I want to say that those programs have been very important in Washington State, and the rural communities deeply appreciate the help and assistance that they have received. And what we are worried about is that it is the lowest income areas that we are talking about that may be negatively hit by this.

Secretary VILSACK. Well, we will do our best to make sure that we provide resources to those lowest income areas. And I will tell you also, this is about economic development and jobs. You cannot attract economic development to a community if you don't have access to water.

Mr. DICKS. Yes. Again, I want to thank you for coming out to Washington State. We enjoyed your visit, and we look forward to continuing to work with you.

I yield back my time, Mr. Chairman.

Mr. KINGSTON. The gentleman yields back.

And the chair recognizes Mr. Aderholt, and I want to welcome you to this committee.

Mr. ADERHOLT. Thank you, Mr. Chairman. It is good to be on the ag committee, and we appreciate the Secretary and the Department of Agriculture coming over and testifying before the subcommittee today.

POULTRY

One of the major agricultural products of the district I represent is poultry, and of course knowing that there is fierce protectionism from other countries, every time we try to complete a free trade agreement or simply arrange sales to another country. What is the status of sales of U.S. chicken products to Australia, Russia, and China?

Secretary VILSACK. We have been working—let me start with Russia. We have worked to reopen the Russian market. They originally expressed concern about the chlorine wash process that we used in poultry treatment. As a result of an elaborate set of conversations with the Russians in Russia about the technical aspects of this, we were able to reach an agreement which reopened that market, and we are in the process of selling poultry.

However, having said that, there are a number of steps that the Russians have taken recently in connection with specific plants, suggesting that there are additional issues that need to be resolved. So there is an ongoing conversation with the Russians about reopening the poultry market, and it actually took President Obama speaking to the Russian president specifically about this during President Obama's visit to reopen.

In China, we are obviously continuing to work to reopen. China now is our number one trading partner generally in agricultural products, surpassing Canada and Mexico. That market is reopened. But, you know, it is always fragile.

We think that there are tremendous opportunities in other parts of the country—other parts of the world, rather—to reopen trade and to expand trade. I am taking a trip in the spring to Indonesia and Vietnam. I think there are tremendous opportunities in that region. I think that is the reason why the President has been engaged in the Trans-Pacific Partnership discussions, to sort of create a much larger, multilateral arrangement.

So Korea, obviously, another opportunity for us, and we are anxious to make sure the free trade agreement gets through the process as quickly as possible.

Mr. ADERHOLT. Anything in particular regarding the status of sales in Australia?

Secretary VILSACK. You know, I will have to get back to you on that, Congressman. I am not specifically sure about Australia. Our focus has primarily been on China and Russia, where they have from time to time created nonscientific barriers that we have to kind of knock down.

[The information follows:]

Australia currently bans imports of U.S. fresh/frozen chicken and turkey meat due to concerns related to infectious bursal disease (IBD). This disease is present in both countries; however, as a result of an import risk assessment (IRA) on chicken meat, Australia concluded that the U.S. strain is exotic to Australia. The United States believes that the IRA overestimates the risk presented by imports of these products. In 2009, the United States asked Australia to add market access for U.S. cooked turkey meat to the list of issues that USDA is looking to have addressed on a priority basis. USDA continues to press Australia on this issue, and has had recent discussions that indicate the matter will be given greater attention by the Australian side going forward. In 2010, the United States exported over $2.5 million in poultry products to Australia, the majority of which were eggs and egg products.

Mr. ADERHOLT. And certainly I know those would be large markets as well.

TRADE AGREEMENTS

Just sort of tied into that with talking about the sales and trade agreements, a lot of times I talk to constituents and they want to know the benefits of these free trade agreements. And a lot of times they hear about the impact they have on manufacturing.

But could you share some examples of where agriculture has actually really flourished when there has been trade agreements—for example, under CAFTA and under even NAFTA, but in CAFTA in particular, where you have seen some real positive efforts that have flowed from these agreements in the past?

Secretary VILSACK. Representative, what I usually do when I talk about trade is to talk about the overall agricultural trade situation. And this year is a good year to talk about it because we had a record export year in agricultural trade. We did—and we anticipate this year, the current year that we are in, we will do roughly $136 billion worth of agricultural trade. That will be $20 billion higher than last year's effort, and last year's effort was a record effort in exports.

Every billion dollars of agricultural sales, export sales, generates somewhere between 8,000 and 9,000 jobs. So it is a job creator. Obviously, it is nice to know that we have in this area a trade surplus. We are anticipating the trade surplus this year to be $47 billion. There are not very many parts of our economy where we can talk about a trade surplus.

So we are basically creating wealth from the ground, exporting it outside the country to CAFTA countries, to Southeast Asia, to Europe, and to certain African countries and South American countries. We are heavily engaged in promoting trade, and we are going to continue to be so.

Our budget does propose additional resources because it can create new opportunities. So across the board, we have seen significant increases in agricultural trade.

Mr. ADERHOLT. And I would assume that that would be the case with the South Korean and Colombian——

Secretary VILSACK. Well, there is no question on South Korea. We know precisely what will happen. We will see tariffs reduced on 60 percent of our agricultural products. It is roughly a $5 billion market today. Those tariffs are roughly 53 percent, which are quite high. We will see an elimination on 60 percent of those items immediately, and then over a period of time the reduction of the other tariffs. So there is no question there is a great opportunity there for us.

It is part of our strategy to focus on countries where there are expanding middle classes or countries where we think barriers to nonscientific—nonscientific trade barriers can be reduced. And Korea obviously has an expanding middle class, and I think will provide impetus and momentum for additional trade agreements.

Mr. ADERHOLT. Thank you.

Mr. KINGSTON. The gentleman's time has expired.

Ms. DELAURO. Thank you very much, Mr. Chairman, Mr. Secretary and staff. Welcome.

Just give me five seconds more, Mr. Chairman, just to say thank you. It was a hard decision for me to make the choice that I did in moving to ranking on HHS. I love the work of this committee. I have been very proud of the work that we have all done together in a bipartisan way, and it has been a pleasure working with you. I am looking forward to working with you again and with my colleague, Mr. Farr, in the ranking position.

And I just want to say a thank you to the Secretary and his staff for the good work I believe we have been able to do over the last several years. So thank you.

Mr. KINGSTON. Thank you.

FOOD SAFETY AND INSPECTION SERVICE

Ms. DELAURO. With that, let me just follow up on a couple of areas that Mr. Dicks began to explore. I really am interested, and if we don't have an answer today, I would like to know, that because of the $88 million cut over the remainder of the year if the current Appropriations Bill becomes law, I think we have to—and we can't, and I know you are not suggesting this, Mr. Secretary—that we just can't hope for the best that will come out of this process.

But just in quantifiable data, which I think we need to know something about, is how many inspectors would have to be furloughed for how long a period of time? How many chickens and beef carcasses would be destroyed because they will go uninspected? What positions are you proposing to eliminate, and how would that affect the daily and continuous plant inspections?

I would like real numbers attached to this and a plan attached to this. As I say, I don't think we can hope for the best here. I think we need to have a plan B, and I think everyone here—and the public as well—needs to know what the impact of those cuts would be.

When FSIS inspection is inadequate, we get the scandals like Westland/Hallmark, that beef debacle that we had in 2008. And as an adjunct to that, what are the safeguards on the proposed savings? What is in place? What is in place to assure us that we do not have another inspection failure like that was?

Secretary VILSACK. Well, Representative, let me just say generally—we will provide you the specifics—but generally speaking, the concern that I have about all of these conversations about budgets and the difficulties that we are having in trying to get a 2011 budget finished is—Are we going to have sufficient time in which to manage whatever you ultimately decide?

Having been a governor for eight years, having balanced eight budgets, if you give me enough time, we can work around. But if you try to squeeze into six months a rather substantial cut in an area of the budget that is personnel-driven, you have no other recourse. It is not like you can plan. It is not like you can figure out how to deal with the situation.

But if you have time—and by time, I mean an extended period of time; that is why the President has suggested and proposed a freeze of discretionary spending for several years. That gives his managers, his Cabinet members, time to manage it appropriately. If you squeeze a substantial reduction in a short period of time, it becomes very difficult to manage. And FSIS is a good example because that is a place where it is very personnel-driven.

[The information follows:]

Last week the Senate voted on the House passed version of H.R. 1 and the Senate version of the bill that would have funded the government for the remainder of the year. As you know, neither proposal had sufficient support to pass the Senate. This is an indication of the difficult decisions under consideration. The Administration has made it clear it is willing to support a reasonable compromise that makes targeted investments while cutting spending in a measured way that will help us reduce the deficit. This assumes that we will be provided enough time to properly manage the implementation of any reductions that ultimately result from these decisions.

In the case of FSIS, it is important to note that 85% of the FSIS budget is for personnel, so a reduction of the magnitude contemplated by H.R. 1 would likely have an effect on the FSIS workforce. Since October 1, 2010, the Agency has undertaken a review of all spending and made significant progress in reprioritizing non-essential travel, operating, and staffing to support core mission requirements. These re-prioritizations were necessary to provide adequate funding for pay cost increases (those merit promotion and within-grade-increases) and unfunded benefit increases, such as rising health care costs and an increasing number of FERS employees. As part of the FY 2012 budget process, FSIS has also identified several proposals that are part of the 2012 budget that will make FSIS more efficient. However, if FSIS were to be reduced to FY 2008 levels with five or six months left in the fiscal year, there would likely be no way to avoid impacting the FSIS workforce.

To mitigate an $88 million reduction, the Agency would seek to manage the effects in such a way as to minimize the impact on the Agency's regulatory responsibilities, on industry, and ultimately the consumer. FSIS would likely need to furlough employees, and in one scenario, FSIS would need to furlough frontline inspection personnel (currently more than 8,000) resulting in approximately 6,200 federally inspected meat and poultry plants being shut down for over one month.

It is difficult to estimate the exact impact on the industry, but during FY 2010, FSIS inspection program personnel ensured public health requirements were met in establishments that slaughter and/or process 147 million head of livestock and nine billion poultry carcasses. Assuming a similar level of slaughter and processing in FY 2011, disruption of inspection for over a month would likely result in billions of dollars of impacts.

Ms. DELAURO. And I will reiterate, but I would like to see the numbers. I think it is important to know the numbers. And you as an administrator and as a governor know that you have to plan for the worst scenario, and I think that that is important. I also would just say what the closure of these plants would be, and I think people have got to understand what the effect is on the cost of meat and poultry products as a result of that.

INTERSTATE MEAT RULE

Let me move to state and meat/poultry inspections. The 2008 Farm Bill directed FSIS to establish a program whereby certain meat/poultry establishments currently under state inspection would be eligible to ship their products in interstate commerce. There was careful negotiation on that among the consumer organizations, state departments of agriculture, the National Farmers Union, and labor organizations.

The comment period for the proposed rule to implement the new program closed on December 16, 2009. The Department did not send the Final Rule to the Office of Management and Budget for final clearance until January 7, 2011. Why was there such a long delay in transmitting the Final Rule to OMB, and when do you expect the Final Rule to be published in the Federal Register?

Mr. KINGSTON. Mr. Secretary, you have about—actually, time has expired, so if you could just summarize it quickly and submit the rest of it for the record, that would be helpful.

Secretary VILSACK. We are expecting it soon from OMB, very soon. My hope is—we talked about this just yesterday, about the interstate meat rule—our hope is that it gets done very soon. This was a pilot project, and I think we just wanted to make sure it was done right in terms of the amount of time.

[The information follows:]

The comments were substantive and the Agency benefited from a thorough analysis in developing the docket.

Ms. DELAURO. Thank you, Mr. Chairman.

Mr. KINGSTON. Thank you.

Mr. Nunnelee, I want to welcome you to the committee. But inasmuch as Mr. Bishop has been the first one here today, I feel like we need to go to him. So if you don't mind, Mr. Bishop.

Mr. BISHOP. Thank you very much, Mr. Chairman. I appreciate your courtesy. And welcome again, Mr. Secretary.

RENEWABLE AND CLEAN ENERGY

Although the President's fiscal year 2012 proposed budget for USDA decreased to $23.9 billion from the $27 billion in fiscal year 2010, you still invest $6.5 billion in support of renewable and clean energy. In particular, the Agriculture and Food Research Initiative is getting an increase of $8.2 million for a research initiative to develop high-quality, cost-effective feed stocks, as you mentioned, for biofuel production. And the Rural Business Cooperative Services, which operates the Renewable Energy Loan and Grant Program for the purchase of renewable energy systems and energy efficiency improvements, will see a combination of mandatory funding and grants programs at about $57 million above fiscal year 2011.

This is laudable, but I am concerned regarding the future of ethanol production as a vehicle alternative fuel source. The ethanol plant in my district, which you visited last year, was just forced to seek bankruptcy due to a number of factors, and I understand that that story is similar around the country.

I think that we all support ethanol as an alternative fuel source. But how can we work to support and strengthen the industry, particularly given the tremendous pressure that it is experiencing now, both politically and economically?

Secretary VILSACK. Representative, first of all, there are over 200 ethanol production facilities in the country. We had a record amount of ethanol produced. Ethanol production is up 23 percent this year. So there may very well be, as is the case in your district, an individual circumstance where a facility didn't make it. I think in your facility's case, it is a particular technology concern and challenge that they were not able to overcome.

Having said that, here is why it is important to continue to support biofuels and renewable energy, because if we reach and when we reach the 36 billion gallon mandatory amount that you all have set as the goal, we will produce roughly a million jobs in rural America. A million jobs. And we will see $100 billion invested in biorefinery plants across the country.

The key here is for us to make sure that we multiply feed stocks used and available to produce ethanol. It is not and cannot and will not be solely based on corn. There are a number of interesting strategies that we are currently investing in that we believe ultimately will result in us being able to produce ethanol and biofuels in all parts of the country, utilizing whatever that part of the country has as its feed stock.

It could be woody biomass in the Northwest. It could be perennial grasses in the Southeast. It could be algae in a facility in the Southwest, as we currently are investing in. It could be animal waste. It could be landfill waste, which we are investing in, a plant in the Deep South. I mean, there are a multitude of ways to do this. It is really about rebuilding the rural economy, and you have got to provide new products, or you have to differentiate what you are producing from everything else that is of a like kind that is being produced.

Mr. BISHOP. I agree with you, Mr. Secretary. And for the past several years, the corn price has been pretty much tied to the price of oil due to ethanol production, which has become a major concern to our pork producers and our cattle producers in terms of feed consumption, feed efficiency, and feed waste.

How can we better balance and/or differentiate corn production and costs for ethanol production versus animal consumption?

Secretary VILSACK. Well, first of all, fortunately, we are seeing good prices in our livestock area. And so we want to obviously continue to expand market opportunities for those livestock producers so they have strong markets.

Secondly, when you are producing ethanol, you are not just producing ethanol. You are also producing a feed supplement that is quite efficient and quite effective in cattle in particular.

So I think there are additional reasons why this is an industry that we should continue to support for the livestock industry. Obviously, we are keeping an eye on the livestock industry, but at this point in time we seem to be doing okay. And we are going to continue to work hard to make sure markets are available, and that we become more efficient, and that we expand the number of feedstocks available so that we don't rely solely on one feedstock.

BROADBAND

Mr. BISHOP. I have just a few seconds left. Let me switch to broadband right quickly. A number of Georgia residents are waiting for broadband coverage in the service resulting from the 2009 stimulus program. And we have spoken with the three primary service providers who won the contracts in Southwest Georgia. But they tell us that while they have submitted all the paperwork, RUS hasn't processed the loans and they haven't received the funding yet. In one case, the paperwork has been pending since the fall.

What is the total number of funds that are allocated to grantees? And is there a way we can expedite the process?

Secretary VILSACK. The 330 projects, I can't say specifically as it relates to your particular project. If you can allow us to get back to you, we will be happy to look into that. There may very well be a reason why there has been a delay.

[The information follows:]

Under the Recovery Act, the Rural Utilities Service approved $3.5 billion in funding for more than 300 broadband projects across the country. These projects are moving forward on schedule to meet the three-year deadline mandated by the Recovery Act. Of the nine Recovery Act-funded broadband projects in Georgia, funds have been made available to one awardee, Flint Cable TV, as RUS has cleared the document and environmental review for that particular project. For the remaining Georgia projects, RUS is working to clear the documents for three projects and is working to finalize the environmental findings for five projects.

Of the total funds obligated nationwide, $1.974 billion in project funding is available for construction or pending final clearance, and $82 million in funding has been drawn down by awardees. In order to ensure responsible administration of Federal funding, documentation for these broadband projects undergoes a comprehensive review by RUS loan and grant specialists. We are doing everything in our power to expedite these projects to ensure they meet the construction deadline.

Mr. BISHOP. Thank you, Mr. Secretary.

Mr. DICKS. Would you yield to me just briefly?

Mr. KINGSTON. The gentleman's time has expired. But I am sorry unanimous consent to give Mr. Dicks——

Mr. DICKS. I have to go on to another meeting.

ETHANOL

But Mr. Secretary, I think you have got to make that story about ethanol—you need to get that out there because there is a lot of misinformation being spread all over this country about that program. And you are an expert on it, and the administration needs to talk a lot more positively about it, I think.

Secretary VILSACK. We make every effort to do that, Congressman. You are right.

Mr. DICKS. Thank you.

Mr. KINGSTON. Mr. Nunnelee. No questions.

Mr. Dicks, you have more time. Mr. Nunnelee just yielded back.

Mr. DICKS. I got things to do. [Laughter.]

Mr. KINGSTON. Well, let me welcome you again to the committee.

PAYMENT ERROR RATES

Mr. Secretary, I wanted to talk to you a little bit about a subject you and I have spoken about in the past, and that is the payment error rates. And I had noticed that you have brought down the error rate for farm programs, and one of the more fascinating hearings that we have each year on this subcommittee is when the Inspector General comes in and talks about people who are gaming the system. And it is not just individuals. It can be institutions, and it can be our own sloppiness that causes payment errors.

But I wanted to have you comment on the farm program payment errors and then I want to talk to you about the Supplemental Nutrition Assistance Program—SNAP—benefit payment errors because it appears that one of the rates has gone down in farm payments, whereas SNAP has sort of leveled off at about a 4 percent rate. And I have some statistics, but let me just ask you to comment on those two.

Secretary VILSACK. Well, on the farm payment, we have done a couple of things. First of all, there was a concern about deceased individuals receiving payments. And so we have teamed up with the Social Security system to make sure that we are appropriately providing resources. There are circumstances where a farmer dies during the year and their family is entitled to the payment, and at that point it ought to stop. And we are doing a better job of making sure that we keep an eye on that.

We have also teamed up, as you well know, with the Internal Revenue Service—IRS—to make sure that if folks are above the income thresholds, that we receive notice of that. And we are doing that in an appropriate, secure, privacy-protected way.

We have also taken a look at ways in which we analyze some of our disaster programs. The Noninsured Crop Disaster Assistance Program—NAP program—for example, had a high error rate. We think that might be because of the sampling process that we are using, and so we are looking at ways in which we can reduce that. So we have seen reductions.

On the SNAP side, I would just simply say that you have to also recognize that there has been a significant increase in the number of SNAP recipients in the last two years. Roughly, I believe, 13 million people have been added to the rolls, and so that is a 30 percent increase. And we have still been able to maintain a less than 4 percent error rate, or less than 5 percent error rate. The standard is less than 6 percent.

We are going to continue. We have challenged our team to do a little bit better this year to continue to increase that percentage of proper payments.

Mr. KINGSTON. Let me ask you this. As I read the IG report on both these programs, the farm program and the SNAP program, some of it is kind of like the Readers Digest article stuff. There was—I believe it was in Detroit, a grocery store where the employees were selling—like swapping cigarettes for electronic benefit cards and, you know, just things that seemed outrageous and easy to do something about, but it had gone on for years.

And I am not sure about that particular case. But some of these appear to be easier to deal with than others in terms of, you do this once, you cannot continue to participate in the program. And the thing about the SNAP program is it is $3.6 billion. So the amount of money involved for 4 percent—that is not that high, but the amount of money is tremendous.

Secretary VILSACK. I agree with you. And one of the benefits of the electronic benefit transfer system is it allows us to essentially keep an eye on—one of the incidences that I have heard of recently is somebody buying substantial amounts of water, and dumping it out and then basically turning in the containers for deposit.

So there are ways in which we can see if there are a disproportionate number of purchases. We can track that. We can keep an eye on it. We can have people in those stores, basically, examining and keeping an eye on it.

So we are committed to this. We know that this is a big number. It is a small percentage, but a big number. But given the fact that we have seen a 30 percent increase in participation in the program, I think it does speak well for our efforts that we have been able to at least maintain an error rate that is historically a solid rate.

SNAP PURCHASES

Mr. KINGSTON. With all the discussion, particularly led by the First Lady, on nutrition and proper diet and the new food pyramid and all these things, is it time to track electronic benefit purchases with nutrition and health, and tie that in and move in that direction?

Secretary VILSACK. Well, we are obviously studying the request from the City of New York to do something akin to that. It is a lot easier said than done, simply because there are over 300,000 products that can be sold in a grocery store.

We at this point have preferred a more incentive-driven effort. We have a pilot project that the Farm Bill basically directed us to put together in Massachusetts, in which we are trying to see if by encouraging with point-of-sale incentives, we can see increased fruit and vegetable purchases as opposed to some of the other purchases.

Candidly, the studies would show that there is fundamentally no difference in terms of purchasing or diet choices between folks who are on SNAP and the rest of the population, in large part because even the folks on SNAP have cash that they use at the grocery store because only 10 percent of the people receiving SNAP are cash welfare recipients. So most of them are working and struggling families.

So I think our view is education and incentives will work more effectively than trying to figure out a very complicated—and I will just give you one example, and then my time is up.

But let's say that you had a system in place where you couldn't buy a certain snack food with SNAP. How do you enforce that? The 18-year-old cashier who lets it go through, are you going to penalize her or him? Are you going to close the store down? How do you enforce it?

And I think these are very technical, practical questions that, again, seems like a great idea, but the implementation of it becomes a lot more difficult than you would expect.

Mr. KINGSTON. I am sure we will be talking about this as time goes on.

Mr. Farr.

Mr. FARR. Thank you, Mr. Chairman.

REVITALIZING RURAL AMERICA

Mr. Secretary, I again want to get back to your sort of explanation of what you are going to do with your leadership. And I think your background as governor and mayor are very important to this.

You say in your opening testimony that: "Rural America offers many opportunities, but it also faces a number of challenges that have been experienced for decades. Rural Americans can earn less than their urban counterparts. They are more likely to live in poverty. More rural Americans are over the age of 65, and they have completed fewer years of school, and more than half of America's rural counties are losing population."

"In addition, improvements in health status have also not kept pace, and access to doctors and health services has been a key challenge for rural America. Within the context of a reduced federal funding level, our budget proposes to focus resources on the most effective means to address the long-term challenges facing rural communities in America. A critical element is engaging with the public and private partners to revitalize rural communities by expanding economic opportunities and creating rural jobs."

I agree with every word. But then you go on, and this is what I want to know, is how do you get a better bang out of the buck here when you eliminate or cut all these programs? Conservation district loans, rural housing programs, rural utilities, rural businesses, watershed flood protection, Watershed Rehabilitation Program, RC&D programs, ARS, Grassroots Source Water Program, NIFA, and several programs in NIFA. And I think, in all, 34 programs that affect rural America are being cut.

How are we going to revitalize rural America by cutting out the base?

Secretary VILSACK. Well, I would say a couple things. First of all, on the housing issue, when you take a look at the guaranteed loan program that we have—we have substantially increased over the course of the last couple of years. When I came into office, I think we were doing something in the neighborhood of $4 or $5 billion worth of guaranteed loans. We are proposing approximately $20 billion in guaranteed loans. So our view is that we can meet the housing needs with the budget that we have proposed.

On the——

Mr. FARR. Just on that, the problem is getting worse, and you can meet it by having fewer loans. Right?

Secretary VILSACK. Well, actually, I don't think it is fewer loans, sir. I think, actually, you will see the same number or—certainly the same number. They will be different types of loans. What we have proposed is a reduction in direct loans, and we have increased—a reduction in direct loans, but an increase in guaranteed loans.

So the amount of housing units and home loans that we are able to do is going to be roughly the same. We are still looking at something in the neighborhood of 90,000 home loans. So I don't think you are going to see a substantial decrease.

On the assisted housing, there is a decrease. But part of the reason there is a decrease is because some of these units are going into foreclosure, and some of them are being converted to higher-income tenants, which often happens.

Mr. FARR. Rather than going through all 34 programs and justifying why you think that cut is warranted, is there an overall strategy——

Secretary VILSACK. Yes.

Mr. FARR [continuing]. Kind of measurable objectives that one can look at, and go back to rural communities and say, well, maybe we are eliminating or consolidating silos, but we are going to get a better bang for our buck.

Secretary VILSACK. Well, we have proposed the establishment of a regional approach, in which we think we can leverage our resources and our capital more effectively. We also——

Mr. FARR. Is that just regional among federal agencies, or does it also include state and county?

Secretary VILSACK. Actually, the local geographic area. So we are talking——

Mr. FARR. So, for example, as governor of Iowa, you know how your counties work and what kind of county offices that may not be federal employees but are doing some very effective—do you—thinking about, you know, what kind of collaboratives they can enter into?

Secretary VILSACK. That is part of it. And part of it is working with local economic development and Chamber of Commerce folks, working with local government officials and state officials, to leverage their resources, the private sector resources; but most importantly, to figure out precisely what that region does best and to invest in what it does best.

Mr. FARR. So it is individualized by region in the country?

Secretary VILSACK. There are seven regions that we have selected for a sort of pilot.

Mr. FARR. That is pilots. Yes.

Secretary VILSACK. Yes. One of them is actually in Southwest Iowa. It is a group of six or seven counties that are working together.

So there is regionalism. There is also a reflection and an effort that we are undergoing to increase capital markets, capital opportunities from the private sector. We think we need to engage the capital markets and venture capital more effectively. We need to figure out ways in which we can encourage more capital into rural America. And that may mean regulatory changes. It may mean statutory changes in terms of the permission of Farmer Mac and the Farm Credit Administration and community-supported banks, a way in which we can figure out how can we encourage you to invest more in rural America. So there are lots of strategies.

Mr. FARR. Have you published that vision?

Secretary VILSACK. Pardon.

Mr. FARR. Have you published your vision? I mean, is it other than—it is hard to pull out of all this budget data. Is there more than—is there some statement of sort of a rural strategy for America?

Secretary VILSACK. Well, we are actually working with the White House, with my fellow Cabinet members, to essentially establish a much broader vision, not just USDA's vision but a government-wide vision.

Mr. FARR. Yes. When do you think that will be out?

Secretary VILSACK. Well, our hope is in the next couple of months. I mean, I can give it to you right now, but—I mean, from our perspective I can give it to you right now very easily. And we do have it published. It is published in our high-performance goals. It is published in our strategic vision for the Department, which we will be happy to provide you with.

[The information follows:]

The Department of Agriculture, as identified in its Strategic Plan for FY 2010–2015 (*http://www.ocfo.usda.gov/usdasp/sp2010/sp2010.pdf*), is committed to assisting rural communities to prosper so that they become self-sustaining, repopulating, and economically thriving. USDA strives to expand economic opportunities in rural America and to create jobs for rural residents. To achieve this vision for rural America, USDA has established a high priority performance goal to create, strong and local regional communities. As part of the strategy to achieve this goal, USDA has identified nine regions to participate in pilot projects that leverage Federal resources in combination with State and local resources. As a result of these pilots, USDA is seeking to develop strong regional economic strategies for expanding exports; linking farm production to local consumption; producing biofuels and renewable energy; capitalizing on broadband; and innovatively using natural resources as wealth-building tools for rural places.

Mr. FARR. Thank you. Thank you, Mr. Chairman.

Mr. KINGSTON. Mr. Latham.

Mr. LATHAM. Thank you, Mr. Chairman. Before I ask my question, I just want to express my appreciation to the gentlewoman from Connecticut for her kindness and the great job she did as chairman. You should be ranking here. You sold us out. [Laughter.]

Anyway, thank you.

Ms. DELAURO. Thank you.

PROPOSED LEGISLATION

Mr. LATHAM. Mr. Secretary, in your budget there is a proposal to limit eligibility of direct payments by adjusting the adjusted gross income, supposedly to save about $2.5 billion over 10 years. You have also got a series of user fees for APHIS and FSIS, GIPSA, and NRCS.

Are you submitting legislation, or is there any effort to reopen the Farm Bill to do these things? And if that does not happen, do you have other offsets to make up for the funding that you are not going to get?

Secretary VILSACK. We really think if we are going to have a good quality discussion about the budget, and we are to establish it as a reflection of our values and priorities, there does need to be what the President referred to yesterday as shared sacrifice and shared opportunity.

With farm prices as strong as they are today, we think it is appropriate to ask the most successful farmers to consider perhaps receiving a little bit less than they have been receiving. And we are happy to talk about the process that we would follow to essentially have that happen. I am sure Congress has the capacity to make that happen. And we think it ought to happen, and we have proposed this the last couple of years.

On the fees, if I can just say, in many cases those fees are designed, in part—certainly in the FSIS area—to basically pay for facilities where we have to inspect more frequently because of difficulties and problems. So we are asking folks who maybe have not lived up to the standard to possibly pay a little bit more for the extra work that they are causing.

Mr. LATHAM. I guess the reality is, though, that they are not going to reopen the Farm Bill before they write a new one. And so, are there other offsets or something that you are going to use to make up for the—if, in fact, you do not get your user fees?

Secretary VILSACK. We are not going to give up on that, Representative.

Mr. LATHAM. Okay.

Mr. KINGSTON. If the gentleman will yield, if the Department has a proposal, or knows of a proposal that we could look at that is appropriation legal or germane, we would look at it, because as you know, it is always going to be offered on the floor, anyhow. And I think we would rather be in a proactive position, working with you, than a defensive position.

Secretary VILSACK. And we are happy to. I mean it is relatively simple. We are just simply saying the limits that you have got in the Farm Bill today would be reduced by $250,000, both on the non-farm and the farm income. So you could, as a farmer, have $500,000 income or $250,000 of non-farm income, and still potentially qualify.

Mr. LATHAM. I am not debating the merits.

Secretary VILSACK. Yes.

Mr. LATHAM. I am just saying the reality is that they are not—the authorizers are not going to open up the Farm Bill.

Secretary VILSACK. Well, it is a new day here. We are talking about a lot of things we have never talked about before.

ENVIRONMENTAL PROTECTION AGENCY

Mr. LATHAM. Yes? I hope so. Well, one thing is, obviously, you are familiar, in Iowa and across farm country, everybody is very concerned about what the Environmental Protection Agency—EPA—is doing, and whether it be the greenhouse gases, particulate matter, dust, anything, how much do you work with EPA, as far as trying to get some common sense maybe on some of the regulations? Because production agriculture is going to shut down if, in fact, some of these ideas are put forth.

Secretary VILSACK. Well, I think we have had an impact on some of the rules that have recently been submitted. The Tailoring Rule is a good example of some of the impact that we have, in terms of biomass, and suggesting that they really need to take a look at the models and study——

Mr. LATHAM. Milk spills.

Secretary VILSACK. Well, and that is another one. And actually, I think Administrator Jackson has been open and receptive to my comments. We work with our Agriculture liaison on a regular basis. He is either in our shop or we are in his shop on a weekly, if not daily, basis.

We do also facilitate conversations between the commodity groups, livestock groups, and the EPA administrator, and we are suggesting, specifically as it relates to the dust issue that you have raised, that there ought to be an opportunity for farmers to basically provide some specific input in the form of hearings or some set of meetings. And I think the administrator is open to that.

And I think she is also willing to go out into farm country and sit down and visit with folks, so that there is a clear understanding of what is being proposed. Oftentimes there is a misunderstanding in listening to some of these conversations. And at times there is an opportunity for EPA to be educated about what is actually happening on the farm, and improvements that have already taken place on the farm that may not have been factored into consideration. So I think there is an openness.

Mr. LATHAM. Well, and I hope so. I mean the belief by a lot of folks is that you are only going to be able to harvest, like in Iowa, corn and soybeans after it is wet and soaked, and obviously, you cannot harvest, because——

Secretary VILSACK. I do not think that is going to happen.

Mr. LATHAM. Well, but that is the way the rules are being—I appreciate it, and I am going to have to leave, Mr. Chairman, so thank you.

Mr. KINGSTON. Thank you. Ms. DeLauro.

FOOD SAFETY AND INSPECTION SERVICE

Ms. DELAURO. Thank you, Mr. Chairman. Just a quick update. If we do have to—and it looks like we will, with an $88 million cut, in terms of the inspection FSIS—what that would mean in the chairman's district in Georgia, that means 15 plants would have to furlough people. Mr. Latham's district, 44 plants; Ms. Emerson, 12; Mr. Aderholt, 32 plants would deal with furloughs of inspectors in those areas. Mr. Nunnelee, 10 plants; Ms. Lummis, Wyoming, has no federally-inspected plants, but the state has 22 state-inspected meat and poultry plants that receive up to half their funding from FSIS.

When the funding has been tight in the past, FSIS has cut funding to states with state-inspected programs. It just gives you a little bit of the flavor of what the nature of that cut will mean to all of us.

IMPORTATION OF PROCESSED POULTRY PRODUCTS

Let me move to the area of animal and plant health inspection service to APHIS. It was because of APHIS's concern with avian influenza outbreaks in the People's Republic of China—sound familiar, Mr. Secretary?

Secretary VILSACK. Yes, it does.

Ms. DELAURO. That limited the scope of the April 24, 2006 FSIS rule to permit the importation of processed poultry products, only if the source of the raw poultry came from either the U.S. or Canada. The APHIS interim rule that was published in January permits certain countries that have experienced outbreaks of avian influenza in their poultry flocks. China is included on that list to export poultry products to the U.S. under certain conditions.

Can you tell us why the USDA changed its position from the one taken in 2006? And I find it very interesting, Mr. Secretary, that the publication of the interim rule occurred right after the visit of Chinese President Hu Jintao to Washington.

I don't know whether that was a coincidence, or some sort of an understanding that was reached while he was here, that such a rule would be published. But we are only going back in history to when the first effort on the processed chicken was articulated by USDA prior to your time, when it happened just after a visit from the Chinese president, and when they had agreed to open up their borders to our beef.

I have a series of other questions on Chinese chicken, but let me ask that. I do not know how much time I will have to get to the others.

Secretary VILSACK. I will do my best to answer that question, and make sure that if I do not, we will provide you additional information.

Ms. DELAURO. Okay.

Secretary VILSACK. Essentially, you know, as a result of legislation, we asked the Chinese to update us on precisely what their rules and regulations were, which they did. We then sent an auditing team to China to take a look at their processing facilities, and also to have a discussion with them about the opportunity to have poultry come into the United States from China.

We have done the audit. We had a set of questions which we submitted to the Chinese. Until those questions are answered, and until we complete that auditing process, we are not in a position to okay and authorize processed poultry from China to come into the United States.

When that happens, the only poultry that will be allowed to come into the United States that is processed in China is poultry that comes from approved facilities. In other words, the United States——

Ms. DELAURO. I understand.

Secretary VILSACK. Okay.

Ms. DELAURO. Yes, I understand.

Secretary VILSACK. In terms of poultry coming from China that is raised in China, we felt that there was a need for a rule, for opportunity for comment, and that is quite a ways down the road before that gets done. And that is the process we are following.

So, today there is nothing coming in. We believe at some point in the near future, perhaps processed poultry from China that is from a source that is an approved source—not Chinese, but an approved source—may come in pursuant to the agreement that we reached, based on all the processes that they have gone through. If they want poultry that is slaughtered in China to come into the United States, they are going to have to go through a much more elaborate process.

Ms. DELAURO. Well, but it says here in your letter, which was to Mr. Farr in February, "Furthermore, if China adequately responds to any potential issues in the slaughter order, the next step would be—publish the proposed rule—proposing to add China to the list of countries eligible to export slaughtered poultry"——

Secretary VILSACK. Right.

Ms. DELAURO [continuing]. "To the United States."

Secretary VILSACK. Right.

Ms. DELAURO. That sounds like it is not as far away as you suggest.

Secretary VILSACK. Well——

Ms. DELAURO. My time is going to be up in a second. I will come around, because as I say, I have an additional set of questions with regard to——

Secretary VILSACK. Two steps, one that could happen soon, based on facilities that have been approved.

Ms. DELAURO. That is processing.

Secretary VILSACK. Right.

Ms. DELAURO. Right.

Secretary VILSACK. That have been approved already. And, two, at some point in time in the future, assuming that China can comply with our rules and regulations and laws concerning equivalency, at that point they would be authorized.

Now, whether they can or not, we do not know, because we have not gone down that road yet.

Ms. DELAURO. Mr. Chairman, I hope there will be another round. Okay? Thank you.

Mr. KINGSTON. There will be. The chair welcomes Ms. Lummis, another new member to the Committee. Welcome.

Ms. LUMMIS. Thank you, Mr. Chairman. Hi, Mr. Secretary.

CODEX

My first question is something I am just learning about myself, and it is about something called Codex, which is a UN-based international commission that sets science-based standards for food safety. And I understand USDA is our nation's interface with Codex.

There seems to be a problem in that there are efforts to change certain standards within Codex from science-based to non-science-based in a way that could interfere with U.S. exports to foreign countries. And so, my question is this. Because Codex is important for U.S. ag trade, is the USDA increasing its focus on Codex activities?

Secretary VILSACK. I would say that we have remained focused on Codex activities, and in advocating consistently a science-based and rules-based system. In fact, we are in the process now of trying to get Codex to approve changes which we think are, indeed, science-based, for which there is resistance in other parts of the globe. But our approach has always been to emphatically support a science-based system.

Ms. LUMMIS. And do you coordinate that with the U.S. Trade Rep?

Secretary VILSACK. Yes.

Ms. LUMMIS. Okay. Does the USDA work with Codex to try and make sure that they are continuing to focus on science-based standards, as opposed to going off on some of these non-science-based tangents?

Secretary VILSACK. Absolutely. I mean we are very consistent about that, both in our multi-lateral conversations and our bilateral conversations. It basically is sort of the governing principle of our discussions on barriers and trade—phytosanitary standards.

SNAP CATEGORICAL ELIGIBILITY

Ms. LUMMIS. Thank you very much. My next question is about SNAP and the budget, as it relates to SNAP. I know SNAP accounts for a big portion of the Ag's budget growth. And part of what seems to have expanded SNAP is these broad-based, categorical eligibilities that are allowed. So even people who qualify for TANF but do not qualify for SNAP, separate and apart from TANF, can receive SNAP benefits.

And we also know, of course, that the number of Americans receiving SNAP has grown by more than 12 million in the last 24 months.

Do you know what portion of SNAP growth is the result of these categorical eligibilities versus just in increase in regular SNAP participants?

Secretary VILSACK. I think the primary reason why we have seen a SNAP increase is that, as people lose their jobs or are having to work part-time jobs or less, fewer hours, they qualify.

The reason why categorical eligibility is important is because—the chairman and I just had a conversation about error rates. One of the strategies for dealing with error rates is 40 percent of the errors are actually people that should be qualified for SNAP that aren't, 60 percent are folks who are qualified who shouldn't be. And so, categorical eligibility makes it a little bit easier to make sure that we are not making as many mistakes as we have made in the past. So that is number one.

Number two, it is an administrative efficiency. You know, a lot of states with strapped budgets are cutting back on their personnel that are administering the SNAP program. So this is a way of making sure that we do not have people, lots of people, falling through the cracks who need SNAP.

CONTINUING RESOLUTION

Ms. LUMMIS. Okay. Thanks, Mr. Chairman. My next question is about the CR that the House passed two weeks ago. Have you had a chance to review it—because we had about five billion in cuts in that CR—and compare it to what you are recommending in your budget, to see if there is any points of agreement or overlap between what was cut in the CR and what you are recommending?

Secretary VILSACK. I want to make sure that I understand what you are asking me, because I get confused. Are we talking about the proposal that was recently announced that would extend things for two weeks to give you time to—or are you talking about the bill that passed the House?

Ms. LUMMIS. I am talking about the bill that passed the House.

Secretary VILSACK. Well, yes. Well, there are substantial reductions. We had a conversation earlier today about the impact on FSIS and food inspection, and I think, you know, the reason we had that discussion is because, in that area of the budget, it is primarily personnel.

So, if you reduce that budget by a significant amount, and you ask that it be managed in a short period of time, the only way you manage it is by dealing with personnel. And the only way you can deal with it in a short period of time is through furloughs or layoffs which, in that area, shuts down plants.

Ms. LUMMIS. Mr. Chairman, my actual question is areas of agreement. Have you seen any areas where you can agree with the cuts that were in the CR that passed the week before last?

Mr. KINGSTON. If the gentlewoman will yield, since your time has expired, we will have another round. I think it is a great question, if you can hang out and ask it.

Ms. LUMMIS. You bet. Thanks.

Mr. KINGSTON. Thank you. Mr. Bishop.

GOVERNMENT SHUT DOWN

Mr. BISHOP. Thank you very much, Mr. Chairman. Along the same lines, the buzz word the last few weeks has been "shut down." And as the tensions continue to rise with the House, the Senate, and the White House on reaching an agreement for the rest of the fiscal year before one expires a few days from now, can you kind of tell us what a shut-down—and God forbid that we have it—will actually look like?

I know that the President indicated that he had instructed all of the agencies to make plans so that there would be a plan in place, should there be a shut-down. But thinking back to 1995/1996, there were over a million federal workers that were sent home during the series of shut-downs then, and major work furloughs happened at the Department of Education, Veterans Affairs, Housing, Social Security, and Agriculture.

So, short-term or long-term government shut-downs would affect your department's programs, particularly those administered by FSA, RUS, and the broadband program, as well as rural development. How do you plan to communicate that to constituents? What is your plan for it? What will it look like? How do you determine what is essential?

Secretary VILSACK. Well, first of all, part of our challenge is that, in 1995, the Agriculture budget had already been approved. And so, our history, in terms of the 1995/1996 time period, is a little bit different than some of the other departments.

Having said that, it obviously—we start with a proposition that you all are going to get this worked out. And that is our hope, that is our belief, and we hope we are right about that. At the same time, we recognize——

Mr. BISHOP. We do, too.

Secretary VILSACK. We recognize that you have to be prepared, as Representative DeLauro indicated. You have got to be prepared. And so, we have gone through that process of taking a look at how this would impact our work. And, frankly, the polestar for this is the Antideficiency Act. I mean it essentially tells you what you have got to do. You have got to make sure that you are focused on protection of people. And we will obviously do that. And that is——

Mr. BISHOP. People, meaning your customers, or people, meaning your personnel? Or both?

Secretary VILSACK. People, meaning people who could be hurt if things do not get worked out. You know, for example, in the food safety area, that would be something we would probably take a very long, hard, close look at.

At the same time, there are strange things that could occur. For example, we have a lot of research facilities that are using animals in their research. And the question is, do they become emergency personnel, that they stay on the job to feed the animals or not? And we are in the process, obviously, of working through all those kinds of questions and decisions that would have to be made, and to do it in a way that is also consistent with collective bargaining arrangements and arrangements to make sure that the work force is fully informed and engaged.

So, we go through that process. And obviously, the time period that is involved, you know, complicates it or simplifies it, depending upon how long or short the stoppage would be. But, you know, it is fair to say that if there is a stoppage, there are certain loan programs. The question would be whether or not you would have somebody on board to collect payments so you would avoid defaults and foreclosures. These are the kinds of questions that we are asking ourselves right now.

H–2A GUEST WORKER PROGRAM

Mr. BISHOP. Thank you, Mr. Secretary. I had an opportunity recently to meet with a group of southeastern fruit and vegetable growers. And the major issue that they had was among their list of concerns—and they had a list of them—is the management of the H–2A guest worker program.

New regulations were instituted, including an adverse effect wage rate, which they say could cost them millions of dollars in inflated wage rates over the prevailing wages, particularly in Georgia and Florida. And they have indicated that they would have to consider moving to production offshore or not participating in the H–2A program.

We tried last year—and I was a part of a Georgia delegation urging the Department of Labor to take into consideration the impact of these regulations on our producers. We did not get very far.

Can you help us, offer some guidance on how we can get a better handle on the situation, particularly with the need for farm labor?

Mr. KINGSTON. In 10 seconds, Mr. Secretary.

Secretary VILSACK. Honestly, you need comprehensive immigration reform. That is the answer. You need comprehensive immigration reform. If you are serious about farm labor—and you should be—when you realize how much of our fruit is picked and processed by immigrant hands, you really ought to have a comprehensive immigration proposal that, once and for all, solves these problems. Otherwise, you are going to continue to have situations like this.

Mr. BISHOP. Thank you. That was 10 seconds.

BROADBAND PROGRAM

Mr. KINGSTON. Mr. Secretary, one of the questions that I have—and you may remember; I know Ms. DeLauro remembers—that in terms of the rural broadband, I had a lot of questions when that was proposed in 2009.

Now, the Federal Communications Commission—FCC—is proposing another $1 billion program for rural broadband, which I know is not under your purview, but you know, there is overlap. And one of the questions that I have is how much are you guys talking, in terms of the USDA program and their program?

There has been some concern about coordination and some of this stuff that Mr. Bishop kind of alluded to earlier. But if the FCC gets another $1 billion, how is that going to work, in your view? Because the inspector general said there were significant problems already in the USDA program.

Secretary VILSACK. You mean in the past?

Mr. KINGSTON. Yes.

Secretary VILSACK. Okay. Well, we are, obviously, providing input to the FCC as they put together their proposal. We also work with the Commerce Department when they established the recent map that was provided, basically shows where the gaps are.

As much as we did, and as much as we have done, there are still significant parts of the country that do not have access to high-speed Internet and, for that matter, to much advanced technology at all. And until we get to the President's goal of 85 percent of our rural areas being helped and assisted with rural broadband and appropriate telecommunications facilities, you know, we are going to continue to promote this, and try to find the resources.

Within our budget we have got carryover that we intend to use in 2012, because we focused on getting the Recovery Act money out the door, which we did. We are focused on making sure those projects get completed, and then using the loan guarantee program—the loan programs that we have under the Farm Bill.

Mr. KINGSTON. Well, I would just suggest that if we are talking all the doom and gloom, potentially, of closing down meat and poultry plants, that maybe the FCC should not be borrowing another $1 billion—which it is, borrowed money—to extend rural broadband. Maybe that could wait a while and come behind——

Secretary VILSACK. Here is the trick, though.

Mr. KINGSTON. And I know that is a different agency.

Secretary VILSACK. Here is the trick, though, that we have to—we, collectively—have to figure out.

You cannot simply control deficits and get the deficit and the debt down by simply cutting spending. You also have to grow the economy. So, at the same time you are looking at appropriate reductions or tough questions and choices that you have got to make, you also have to invest in the future, so that you can grow the economy, so that it can help you grow yourself out of the deficit circumstance.

And I think one tool for growing, particularly in rural America, is expansion of broadband. It helps small businesses expand their markets, allows them to have input costs that are less expensive. It enables farmers and ranchers to have real-time information so they can make more informed decisions about their operations, and it creates real distance learning and telemedicine opportunities to improve quality of life that, in turn, allows you to promote economic development.

So, I think you have got to—there is a balance here. And, as the President said, it's a shared sacrifice. But also, the other part of it is shared opportunity. And you have got to balance the two.

Mr. KINGSTON. Well, we did have, what, $7 billion in the stimulus program for it, and now it's another billion? It was three and three, three-and-a-half, three-and-a-half.

Secretary VILSACK. I do not know what it cost in 2011 dollars to put the Rural Utility Service into place in rural America when it was in the 1930s and 1940s, but I imagine it was a fairly significant—this is a very large amount of money that is going to be required over a long period of time to get the job done right.

We still have a lot of places in America that just do not have this. And as long as they do not have it, they are going to be second-class citizens, in terms of economic opportunity.

Mr. KINGSTON. Well, I think we all have, in terms of priority, the concern about meat and poultry inspection. It would be, to me, a lot more urgent than broadband at this point, after spending this $7 billion.

And I also get concerned about the crony capitalism that seems to take place in this town of big businesses who can always cut a deal and always get theirs and, you know, you look at the Democrat National Convention or the Republican National Convention, it is the same sponsors hosting all the events. And I just wonder if this is not something where big businesses figured out, "Hey, we can make a buck on this," and I get concerned about it.

Secretary VILSACK. Well, a lot of the folks—I cannot speak about urban and suburban areas, but a lot of folks who are getting the benefit of these resources are relatively small operations in rural areas. And, in some cases, they are small telecommunications companies.

You know my state, for example, has got 150 small telephone companies, and I know several of them received grants to basically expand broadband. So I am not sure that in rural America, that it is necessarily all large operations that get the benefit of this.

Mr. KINGSTON. And my time has expired. We will discuss this some more, I guess, in time. And Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman. Welcome, Mr. Secretary, and officials from USDA.

FARM PAYMENTS

Mr. Secretary, on page four of your testimony, you make a passing reference to mandatory targeted farm payments. I am wondering if your budget officer might know how much the United States, on the mandatory side, pays out, let's say, in fiscal year 2011, in mandatory payments to indirect subsidies to farmers across this country. Do you happen to have that number?

Secretary VILSACK. I think I am going to take a stab at that, and Joe Glauber can correct me, or Mike can correct me if I am wrong.

I think we are projecting this year somewhere in the neighborhood of $10 billion, and last year it was somewhere in the neighborhood of $12 billion. And the reason why it is different is that we do not anticipate counter-cyclical or loan deficiency payments because of the high commodity prices.

Ms. KAPTUR. Yes, and I noticed you also reference that there is a trade surplus in agriculture, which means we are exporting more than we are importing.

Do you have any idea what the largest payment in America is, how much it is, and where it goes? Which state? Which producer? Do you keep those records?

Secretary VILSACK. I am sure we probably have something along—certainly on the state level. But I do not know, I cannot tell you today where the largest amount of the payments go.

Ms. KAPTUR. Would any of your staff have any enlightenment they could provide on that point?

Secretary VILSACK. We can certainly get it to you.

[The information follows:]

The following table provides payment information for the top 10 recipients in fiscal year 2010. It should be noted that payments to entities may exceed relevant payment caps provided that the payments to the individuals who comprise the entity do not exceed the payment caps.

State	County	Name	Program	Amount
Kansas	Butler	Mid America Title Company Inc	Grasslands Reserve Program	$1,074,212
Colorado	Bent	Bison Title Company	Grasslands Reserve Program	958,346
Texas	Angelina	CPT Log Co LLC	Biomass Crop Assistance Program	894,915
Michigan	Ottawa	Boersen Farms Grain	Supplemental Revenue Assistance Program	700,000
Wisconsin	Portage	Potter Living Trust	Grasslands Reserve Program	683,578
Pennsylvania	Juniata	Fogleman, Ned A.	Grasslands Reserve Program	639,769
Louisiana	Tensas	Balmoral Farming Partnership	2009 Direct Payments	614,388
Illinois	Edgar	Moody Farms Partnership	Supplemental Revenue Assistance Program	612,547
Ohio	Logan	Heintz Farms Enterprise	Supplemental Revenue Assistance Program	600,000
Indiana	Johnson	Bright & Kemper Farms	Supplemental Revenue Assistance Program	597,733

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Ms. KAPTUR. All right. I would appreciate that very much, because I have to say that I am very, very concerned about the cuts this year in the Commodity Supplemental Food Program, which are proposed for this fiscal year now at $20 million.

We are spending billions in farm subsidy payments. I would like to know where they are going. They are on the mandatory side. We cannot get at them in this subcommittee. And yet, I come from a state where 20,000 very low-income people are going to be cut off of their—I may have that figure wrong, I think it is 4,000—4,000 in just my state of Ohio, and I think nationally it is 20,000. I may have the national number incorrect. But in any case, there will be 4,000 cuts in my state of Ohio.

And one of these people is going to be a lady named Kitty in Lima, Ohio. And I just want to read this into the record. She is a diabetic. She is living on social security. She gets $580 a month on her social security. And she spends $250 of that on medicine. And she worked, she thought her social security would be enough, but it is not. But the food box gives her a chance, when she gets it, to pay for her medicine and to help her make ends meet.

And there are 20,463 Ohioans who rely on that $30 box of food. And I just look out there and I say, "At this point in our country, why do we have to cut the Commodity Supplemental Food Program? How many jobs does that create, when we cut the Commodity Supplemental Food Program? How does that create one job in America?"

Secretary VILSACK. I may be confused. I'm not sure that we, in our budget, were proposing that. Are you talking about the current bill that passed the House?

Ms. KAPTUR. Right.

Secretary VILSACK. Oh, okay.

Ms. KAPTUR. Right. The bill that passed the House cut $20 million in the Commodity Supplemental Food Program.

Secretary VILSACK. Well——

Ms. KAPTUR. And in my district alone, 4,000 people are going to be impacted by that. And my question for 2012, what are you proposing for CSFP? But, you know, I am just befuddled that these big payments go out——

Secretary VILSACK. We are——

Ms. KAPTUR [continuing]. And I have a hunch it is hundreds of millions of dollars——

Secretary VILSACK. We are proposing an increase.

Ms. KAPTUR. Oh, that is good news. But what are you doing this year for those places where—can you do anything to make us whole, as these proposed cuts on CSFP are implemented at the state levels?

Secretary VILSACK. Well, right now we are trying to manage a very difficult circumstance, because we do not really know the direction of the 2011 budget. We are trying to manage it within the 2010 guidelines, which may or may not be appropriate, depending upon the mission area and depending upon what you and Congress ultimately decide to do.

Ms. KAPTUR. Right. Well, I hope my colleagues on this subcommittee will help me out, because what is going on here is really wrong, and it hurts real people, and it hurts—we have got them on a list, and we have got them lined up for food.

COMMUNITY GARDENS

And that gets to my next question, Mr. Secretary. You have been a real leader of this, and many of your associates, but I am interested in helping the people who live in the poorest places get food. Maybe not only through government food programs, but by raising their own food. And what has happened—this is not a new story to many of your associates—we are approaching spring now. I am wondering what USDA can do to help us produce food in those areas where we have high unemployment and poverty.

I can tell you we hit 120 community gardens last year in our community. And in the areas that are the poorest, the seniors come and pick them to the ground. They pick them to the ground in the heart of the city. Now we need seed, we need technology, and we need training.

I just got back from Israel. I saw the most incredible little solar house that they created there, and I know what people in my community are doing, raising 2,300 tilapia, just in one pond that can go to needy people—excuse me, Mr. Chairman, I am just going to take a couple of extra seconds here—what can USDA do to help us with the technology to meet the need where it really exists, and get those who are unemployed involved in production of their own food?

Secretary VILSACK. Ten seconds.

Mr. KINGSTON. Ten seconds. You have done well with 10 seconds.

Secretary VILSACK. Just one program—there are many, but one program—USDA just recently awarded three-quarters of a million dollars to Ohio State University to work with beginning farmers and ranchers to develop small farming projects which would support the Cleveland Urban Agriculture Incubator Pilot Program to work and combine folks with opportunities in the city to be able to essentially use urban farming opportunities.

So that is one, but there are a number, and we would be happy to provide you other lists of items that we have got.

[The information follows:]

URBAN AGRICULTURE PROGRAMS

- **Community Food Projects Competitive Grant Program:** Grant program to increase the self-reliance of low-income individuals and communities in providing for the food needs of the communities; promote comprehensive responses to local food, farm, and nutrition issues; and meet specific State, local or neighborhood food and agricultural needs including needs relating to infrastructure improvement and development, planning for long-term solutions, or the creation of innovative marketing activities that mutually benefit agricultural producers and low-income consumers.

- **Hunger Free Communities Grants:** Works to identify new strategies or combinations of strategies that support the creation of Hunger-Free Communities by helping fund research, planning, and hunger relief activities including but not limited to: food distribution, community outreach, initiatives that improve access to food, and the development of new resources and strategies to reduce or prevent hunger and food insecurity. The 2008 Farm Bill explicitly identifies community gardens under the use of funds for the Collaborative Grants.

- **Urban and Community Forestry Program:** Through its State and local partners, provides financial, technical and educational assistance to cities, suburbs and towns, to improve the health of our urban and community forests for the benefit of all. The program has unique and broad authorities to support urban tree planting, including urban orchard and urban agroforestry projects.

- **Business and Industry Local Food Loans:** Loans or loan guarantees made to establish and facilitate enterprises in rural and urban areas that process, distribute, aggregate, store, and market locally or regionally produced agricultural food products to support community development and farm and ranch income.

- **Value-Added Producer Grant Program:** The purpose of the program is to make grants to eligible producers of agricultural commodities to enter into or expand value added activities including the development of feasibility studies, business plans and marketing strategies.

- **Farmers Market Promotion Program:** Provides grants targeted to help improve/expand domestic farmers' markets, roadside stands, community-supported agriculture programs, agri-tourism activities, and other direct producer-to-consumer market opportunities.

- **Specialty Crop Block Grant Program:** Provides funds to States for projects that enhance the competitiveness of specialty crops. States have supported projects with funds provided by USDA, including establishing/developing urban community gardens and urban agriculture education and promotion.

- **Wholesale, Farmers, and Alternative Market Development Program:** The program works to increase overall food marketing efficiency, thereby lowering the cost of marketing food through technical assistance to States and municipalities interested in creating or upgrading markets and marketing facilities.

- **Healthy Urban Food Enterprise Development Center (HUFED):** The HUFED Center program serves to redevelop a food enterprise structure in the United States in order to make more healthy, affordable food available in low-income areas, to improve access for small and mid-sized agricultural producers, and to promote positive economic activities generated from attracting healthy food enterprises into underserved communities. The Wallace Center at Winrock International was selected to run the Healthy

Urban Food Enterprise Development Center for three years and provides sub-grants and technical assistance through the Center.

- **Cooperative Extension:** The Cooperative Extension System is a nationwide, non-credit educational network. Each U.S. state and territory has a state office at its land-grant university and a network of local or regional offices. These offices are staffed by one or more experts who provide useful, practical, and research-based information to agricultural producers, small business owners, youth, consumers, and others in communities of all sizes.

- **People's Garden School Pilot Program:** Awards grants to public schools and nonprofit entities for projects to develop, run and evaluate community gardens at high poverty schools as part of a pilot project. The pilot program can only fund new gardens, not existing ones.

- **The Specialty Crops Research Initiative:** A specialty crop research and extension initiative to address the critical needs of the specialty crop industry by developing and disseminating science-based tools to address needs of specific crops and their regions.

- **The Sustainable Agriculture Research and Education (SARE) Program:** The mission of the SARE program is to advance sustainable innovations to the whole of American agriculture. Since it began in 1988, SARE has funded more than 4,000 sustainable agriculture research, education and professional development projects across the country. Sharing project results is a cornerstone of the SARE program, with field days, workshops and conferences in every region; and an Outreach office producing an ever-growing library of books, bulletins, online resources as well as a vast archive of know-your-farmer profiles of SARE grantees. SARE is uniquely grassroots, administered by four regional offices guided by administrative councils of local experts. While every region offers Research and Education, Professional Development, Farmer/Rancher Research grants, some regions also offer Graduate Student, Sustainable Community Innovation, and Planning grants.

- **Appropriate Technology Transfer for Rural Areas (ATTRA):** ATTRA, also called the National Sustainable Agriculture Information Service, provides sustainable agriculture information to those engaged in or serving commercial agriculture, such as farmers, ranchers, extension agents, farm organizations, and farm-based businesses. Clients can call in requests on a toll-free telephone line, visit the website that features publications, breaking sustainable agriculture news, and funding opportunities, and learn about relevant workshops and web-based presentations. Urban and Community Agriculture ATTRA page:

- **Resource Conservation & Development Program (RC&D):** The purpose of the program is to accelerate the conservation, development and utilization of natural resources, improve the general level of economic activity, and to enhance the environment and standard of living in designated RC&D areas. Current program objectives focus on improvement of quality of life achieved through natural resources conservation and community development which leads to sustainable communities, prudent use (development), and the management and conservation of natural resources.

- **Conservation Technical Assistance:** The Conservation Technical Assistance (CTA) Program provides the knowledge and conservation tools needed by agricultural producers and other people to conserve, maintain, and improve the natural resources on the lands that they manage. Through the CTA Program, NRCS helps land managers improve the long term sustainability of all lands, including cropland, forestland, grazing lands, coastal lands, and developed or developing lands; and facilitate changes in land use as needed for natural resource protection and sustainability.

- **Small Business Innovation Research Program:** The Small Business Innovation Research program is a three-phase award system which provides qualified small businesses with opportunities to propose innovative ideas that meet specific research and development needs of the Federal government.

- **Agriculture and Food Research Initiative (AFRI):** The purpose of AFRI is to support research, education, and extension as well integrated programs by awarding grants that address key problems of national, regional, and multi-state importance in sustaining all components of agriculture, including farm efficiency and profitability, ranching, renewable energy, forestry (both urban and agroforestry), aquaculture, rural communities and entrepreneurship, human nutrition, food safety, biotechnology, and conventional breeding.

- **National Agricultural Library (NAL):** NAL maintains the following websites that provide information concerning alternative farming systems:

  - Community Gardening: http://afsic.nal.usda.gov/nal_display/index.php?info_center=2&tax_level=2&tax_subject=301&topic_id=1444

  - Urban Agriculture: http://afsic.nal.usda.gov/nal_display/index.php?info_center=2&tax_level=2&tax_subject=301&level3_id=0&level4_id=0&level5_id=0&topic_id=2719&&placement_default=0

- **Supplemental Nutrition Assistance Program (SNAP):** SNAP provides low-income households with electronic benefits they can use like cash at most grocery stores. SNAP recipients can also use their benefits to purchase seeds and plants which produce food for the household to eat. Purchases need to be made from authorized retailers.

Ms. KAPTUR. Thank you. Thank you very much. Thank you, Mr. Chairman.

Mr. KINGSTON. Thank you, Ms. Kaptur. Ms. Lummis?

Ms. LUMMIS. Thank you, Mr. Chairman. And I would follow up with the gentlelady who just spoke by adding that government is not the only answer to these problems. Meals on Wheels works, food banks work, churches work, United Way works, Rotary clubs work, cattlemen and cattlewomen's associations and other farm commodity groups work to help alleviate these needs and meet these needs.

And you know, I do think that we have to consider all of the available resources, not just government resources, when we are looking at the tremendous needs out there. I acknowledge there are needs. But there are other providers, other than the Federal Government. And at a time when we are broke, I think it is important that we remember that the Federal Government is not the only answer to these problems, albeit the Federal Government plays a role.

CONTINUING RESOLUTION

Mr. Secretary, I would like to go back to the question that I had earlier, and that is, at a time when the Federal Government is broke, and we have to cut spending—now, maybe you do not agree with that premise, but that is the premise that is operating in my head—you saw the CR that passed the House of Representatives. Obviously, it has not passed the Senate. The President has said he is going to veto it.

But I wonder, after having seen the collective thinking of the House of Representatives two weeks ago, and seeing some of the cuts that were proposed to agriculture, which amounted to roughly $5 billion for the remainder of this fiscal year, are there any areas where we agree?

Secretary VILSACK. That is a difficult question to answer, and here is why. Because, you know, on the one hand, if you are asking—are you in agreement with any of the cuts that we have specifically proposed, that is one question.

Are you asking me if you reduce community facility grants by $13 million, you know, does that—is that okay, can you live with the rest of whatever is left in the community facility grant program, and is that going to be allowed to continue?

Here is what I would say. I cannot give you a specific answer today, in terms of specifics, because we really—we just analyzed what the reaction and the impact would be on the cuts.

But what I can say is, give us time to manage. When you say $5 billion, that does not sound like a lot of money in the scheme of things, but when you squeeze it into a four, five, six-month period, it is a large cut. And, depending upon what mission area you are cutting, if you are cutting FSIS, all you can do is personnel. There is just not much else you can do, and you do not have enough time to do, in a thoughtful way, in using supervisory-to-employee ratio control or attrition, substituting people at a lower pay scale for a higher pay scale, you do not give us time to do that.

If you are talking about reducing commitments to rural development, then I would simply say, well, you have got to be careful about that—back to my comments to the chairman—because you are basically compromising our capacity to invest in the future, and to be able to grow our way, in addition to cutting our way, out of this difficulty.

Honestly, we did not get into this circumstance overnight. And, candidly, we are not going to get out of it overnight. Give us time to manage. Give us time to manage. I think that is why the President proposed this freeze over a period of five years; it gives us time to manage. It gives me sort of a playing field. I know I am not going to get any more money, I am not going to get any less. I am going to have to figure out for the next couple of years how to live within that budget. I can plan, I can make a long-term strategy.

I cannot do that in four or five months. It is very difficult. So, you just basically take a meat axe to things, and you do what the Congress directs you to do. And I guarantee you, people are going to get hurt. I do not know how many people, I do not know in what category, because it ultimately depends on what that bill ultimately looks like.

Ms. LUMMIS. Well, and Mr. Chairman, I appreciate your answer, but I would also suggest that when the country is broke, freezing at the highest level that spending has ever been is not the answer. And I yield back.

Secretary VILSACK. Can I just—10 seconds? I think it is fair to point out what the President pointed out to the governors yesterday, that if you were to do that, discretionary spending would be at its lowest level, as a percentage of the gross domestic product, since Dwight Eisenhower was President.

So, I mean, there are—this is a real proposal. It is not trying to window-dress, but it is trying to give people time to manage appropriately.

Ms. LUMMIS. And, Mr. Chairman, I would suggest that in real and nominal dollars, not worried about GDP and percentage of GDP, we are at the highest levels we have ever been. Thank you. I yield back.

Mr. KINGSTON. Mr. Farr.

INVESTMENT IN RURAL AMERICA

Mr. FARR. I would just like to comment. I do not think it is about that. I think it is about investment. If you look at the mortgage we are all carrying, we are broke. You cannot pay that off by the end of the year. If somebody told you you had to pay it off, you would go nuts. But if they said, "Do you have a plan to pay it off over the next 30 years, a monthly payment," we all agree then. We are not panicked about our mortgage. It is the biggest damn debt we have. What is missing here is a plan to pay off the debt. And it cannot just be done by cut, squeeze, and trim.

Mr.—well, Secretary—I would hope—and I think this discussion is really appropriate—we need you as a champion for rural America. I mean all the questions Mr. Kingston, Ms. Kaptur, Ms. Lummis has been asking, essentially, is what are these cuts, and what is the effect, and yet there is no kind of, I think, strong enough statement yet by you by—that we really need to shift our priorities in America within the Department of Agriculture.

I mean the Department of Agriculture was created by Abraham Lincoln. And if you look at America, it was built by the Department of Agriculture. What did we do? We gave away land. We made people go West. And if you went West, we would give you land. We built the railroads by giving them land. We built the infrastructure, we paid for the roads, public paid for that. We paid for the rural communications system. The government paid for that.

I mean, infrastructure of rural America has always been underwritten by government. And it seems to me that the issue here is that we are going to have—rural America, where our food and fiber comes from, we are going to have to think modernly. And to think modernly, it is going to be shifting priorities.

And I would hope that you come in with a farm bill and radically suggest that we drop a lot of these welfare payments to farmers, and invest in where people are really working, what is necessary to, you know, build a stronger rural—competitive. And, yes, you can bring in the service clubs and help. But they all assist in a partnership, they cannot do it by themselves.

ORGANIC RESEARCH

But I want to just—one of the things I want to ask you about is that, with Kathleen Merrigan here—and that was one of the best appointments you ever made, because I represent a lot of organic growers, and certainly she is the national—the queen of organics, if that is a—but what I am concerned about is that I do not see any emphasis here to sort of bring organics up. It is the fastest-growing industry out there, and it is in the research area that I am really concerned, that we need to make sure that there is parity.

It should be part of your rural strategy. We have got a lot of—organic can be a lot smaller farmer. You may not be producing product year-round, but you can get into market. And I am wondering what you can do. It is going to be a farm bill issue, but can we look forward to bringing in and bringing up the research for organic to that, at least equivalent to what is going on in traditional agriculture?

Secretary VILSACK. Representative, I think I can say this with some degree of confidence, that no administration has done more for organic agriculture than this administration, whether it is research, whether it is specialty block grants, whether it is market news, whether it is enforcing the standards, whether it is export equivalency agreements with Canada, and working on one with Europe to expand exports, whether it is beginning an appropriate dialogue and conversation about the need for organic and conventional and genetically engineered agriculture to basically live in the same neighborhood together, whether it is using additional resources from the conservation programs under the Environmental Quality Incentives Program—EQIP—there has been a substantial amount of work done in this space, and there will continue to be a substantial amount of work done in this space.

It is part of the strategy. It is part of our strategy to grow rural America. It is part of the regional and local food initiative that is part of a five-pronged strategy for rebuilding rural America that includes broadband, conservation, biofuels, export opportunities, and local and regional food systems.

Mr. FARR. Well, I appreciate it. I would look forward to seeing how much of that you are going to be advocating for.

I want to just point out that Napa County has recently created a Food Council, made up of all school folks and farm bureaus and all, and they are really looking at how do you grow the nutritional food in our country and serve it in our county, get it into all the institutions, so that all the political and civic actors in that county sit on this council. It is a very exciting one, and reports directly to the ag commissioner—every county in California has an ag commissioner—and also respectively to the county board of supervisors. And maybe we ought to be thinking about creating these councils all over the country.

Secretary VILSACK. We are, and it is part of—food councils are being established all over the place. In fact, I was the first governor in the country to establish a state food policy council.

Mr. FARR. Well, good for——

Secretary VILSACK. So we are very familiar with that. And I think we have sacrificed substantially for California by giving up my chief of staff to be your new Secretary of Agriculture. It is the least we could do.

Mr. FARR. And when she calls back, I hope you will just say yes to everything she asks for.

Secretary VILSACK. Well, that may be a problem.

Mr. FARR. I have another question in the next round.

FARM BILL

Mr. KINGSTON. Mr. Secretary, I want to follow up on Mr. Latham and Ms. Kaptur's comments about the farm programs, and invite you to send us a letter to the Committee on some of the things that you think we could look at without waiting for the farm bill. As Mr. Latham discussed, you know, it is very hard to open that up. But I also think, as a practical reality, as you have said, we might not want to wait on those things.

CONSERVATION RESERVE PROGRAM

I would also ask you to include comments on the CRP, because that, as I understand, is now 32 million acres, I think, very oversubscribed. The land was supposed to be highly erodible, and I do not believe a lot of it is highly erodible. I think it is paying farmers not to farm in many cases. I understand the cost may be as high as 50 percent of the crop programs, but it is only 10 percent of the acreage. Not sure about that, but I just think that that is one we should look at.

And I also do not think that there is an adjusted gross income issue on that, but maybe there should be. Because I know a lot of people who own land, who are not farmers, who are participating in CRP, who are getting that monthly check for their land.

And so, you do not have to respond right now, but if you would, I would love to——

Secretary VILSACK. Can——

Mr. KINGSTON. Go ahead.

Secretary VILSACK. I just want to respond to one aspect of your comment, and that is the notion that CRP is over-subscribed, in terms of productive land, and so forth, and not focused on environmentally-sensitive land. Actually, I think we are seeing much more focus on environmentally-sensitive land. Because crop prices are as high as they are, folks are going to take that more productive land and put it into crop production. That allows us to use a scoring system that really does focus on environmentally-sensitive lands.

I can tell you that eight billion tons of sediment has been prevented, as a result of CRP, going into our roads and streams, which makes it a lot less expensive to take care of water quality. I can tell you that there are tremendous habitat increases as a result of CRP, which encourages more outdoor recreation, and it is part of the American great outdoors. We know that this is a multiple hundred billion dollar industry that we can tap into.

So, you know, I think we have to take a look at CRP, as you have suggested. But I do think we are focusing on where it needs to be focused. But if you have incidences where that is not the case, I am certainly——

Mr. KINGSTON. I have concerns about it, and I will say this. They are my constituents a lot more than maybe some other people on this panel. But I just think that in the spirit of putting things on the table, that should also be on the table to take a look at.

Secretary VILSACK. We have a wonderful program——

Mr. KINGSTON. And I am not totally attacking it, either. I am just saying I have got some concerns. We should look at it.

Secretary VILSACK. We have got a wonderful program, of longleaf pine that is part of the CRP program that we are excited about, which is obviously your area.

[The information follows:]

The Conservation Reserve Program (CRP) works. It has reduced soil erosion by 8 billion tons since its inception 25 years ago and has been credited with preventing a return of the Dust Bowl. In addition to reducing soil erosion, CRP benefits water quality by preventing runoff of nitrogen by 600 million pounds per year and phosphorus by 100 million pounds per year.

CRP has resulted in noteworthy wildlife benefits. It has increased duck production in the Prairie Pothole National Priority Area by 2 million birds per year and doubled pheasant populations in many areas of the country. CRP has increased populations of non-game grassland bird species and those of sage grouse and lesser prairie chicken--species under consideration for threatened or endangered listing. The program has been credited with the return of native trout populations in the Driftless Area of Iowa and Minnesota (a rare Paleozoic Plateau), and is being used to restore salmon habitat in Oregon and Washington.

Current legislation requires that the CRP program ensure "an equitable balance among the conservation purposes of soil erosion, water quality, and wildlife habitat" when accepting lands into the program. Accordingly, many lands under contract are not highly erodible (land that has an erodibility index (EI) equal to or greater than 8). In pursuit of this mandate, the CRP enrolls land under two categories: the general signup and the continuous signup.

The CRP's general signup uses an environmental benefits index to rank and select offers for enrollment. This process increases environmental benefits by encouraging land owners and operators to tailor the lands and practices offered to maximize their scores. The index also increases cost-effectiveness because the rental payment requested is a part of the index—the lower the "bid", the higher the score and resulting ranking. The index includes factors for water and air quality and wildlife benefits, in addition to soil erosion benefits, and currently accounts for 26.3 million acres of which, approximately 6.3 million acres are on contracts where the weighted average EI is less than 8. Among these lands are 1 million acres of wetland restorations, 165,000 acres of longleaf pine plantings, and 400,000 acres of rare and declining habitats. Over 5 million of the 6.3 million acres are located in State and National conservation priority areas and zones, areas targeted for increased enrollment consistent with the statutory language stating that "the Secretary shall attempt to maximize water quality and habitat benefits in the watersheds" selected. There are non-highly erodible lands on contracts where not all of the soils on the contract are highly erodible, but the weighted average erodibility index is 8 or above. This is because soil type boundaries do not match field boundaries.

CRP's continuous signup program currently contains 5 million acres, most of which are not classed as highly erodible. The continuous signup does not use an environmental benefits index and enrollment is non-competitive. Participants must meet eligibility criteria and choose among specific high-priority conservation practices. Most continuous signup enrollments tend to focus on water quality or specific wildlife or ecosystem concerns, rather than soil erosion. Continuous signup currently includes 2.0 million acres of riparian and grass buffers (preventing agricultural runoff from reaching streams and rivers), 500,000 acres of cropped wetland restorations. Other enrollments address wildlife habitat concerns, including upland bird (bobwhite quail) habitat buffers, Prairie Pothole duck nesting habitat, and State Acres for Wildlife Enhancement (SAFE), and initiatives targeted by States to selected habitats.

The appropriate size of the CRP is a question that is open to debate. The President's Budget provides for CRP to remain at or near the 32-million-acre statutory cap. Congress provided funding for 32 million acres in the 2008 farm bill, and over 31 million acres are currently enrolled. I agree that the program should be reviewed more broadly; we do so internally within USDA on a continuous basis. Accordingly, I hope to work with Congress to examine the CRP to see if there are any improvements that could be made either before or during the farm bill process.

As potential changes to CRP are discussed, we must recognize the trade-offs. Reducing enrollment levels (for example, by reducing the cap), or other changes to the program, could mean forgoing some of CRP's tremendous environmental benefits.

Mr. KINGSTON. Let me yield to Mr. Farr.

AGRICULTURAL LAND

Mr. FARR. Mr. Secretary, you ought to look and see whether states have used zoning powers, rather than these payment powers. It seems to me that, in an awful lot of cases, we are paying for things that just should not be used for farming, because under adequate zoning measures they would not allow you to farm that way.

Secretary VILSACK. I could be wrong about this, Representative, but I do not think too many states actually zone agricultural land. I know my state does not.

Mr. FARR. Well, we do, in California. We zone it, we preserve, repairing corridors in all the areas, the slopes, and everything like that, because of all the areas that do not—to prevent erosion.

Secretary VILSACK. I am sure that is true in your state, but I do not think that is necessarily true in a lot of states. And I am not sure there would be a lot of state legislative support for that notion. Nor could we mandate it.

Mr. FARR. Well, that is an expensive way to lead a horse to water.

Mr. KINGSTON. Let me yield back. Ms. DeLauro.

NUTRITION ASSISTANCE PROGRAMS

Ms. DELAURO. Thank you, Mr. Chairman. Just let me set the record straight for a moment—and I am delighted that the gentlewoman from Wyoming is back in the room—let me note, with regard to SNAP participation, 2007, 27.3 million people; 2008, November, 31.1 million; November 2009, 38.2 million; November 2010, 43.6 million, 14 percent of the population is taking advantage of the food stamp today. This is not because of categorical programs, this is because of a recession where people have lost their jobs, or their wages have been lessened. They have lost their homes, they have lost their health care, businesses. They can no longer even afford to put food on the table.

Yes, we are looking at the notion that this is a Federal Government going broke. I suggest that it is not a question of not attacking the deficit, which we ought to do, we ought to be willing to shut down programs that do not work, that are ineffective. But we also ought to be willing to cut the tax subsidies to the very special interest groups.

Let me start with the $40 billion that we paid today—and I can cite it chapter and verse—$40 billion in subsidies to the oil industry. The last time I looked, they were pretty fat and happy, that they did not need to really have $40 billion of the largesse of the Federal Government. We could apply that $40 billion to deficit reduction, and we do not have to touch these programs.

The other piece that I think is very, very important—and we ought to take a look at $8 billion in agricultural subsidies, or almost $8 billion in the multi-national corporations that take their money and they go overseas and they park it there, and they do not have to pay any taxes here. That is where we ought to start, rather than Ms. Kaptur's constituent, who cannot deal, because the Commodity Supplemental Food Program is going to be shortened.

Talk about Meals on Wheels. Because of the budget cut last week, it is 10 million less meals on wheels that will be served to home-bound elderly. $40 billion for the oil companies and 10 million less meals served to the elderly.

Another comment with regard to SNAP, in terms of error rates—and I mentioned this to the chairman, as well, and the chairman and I have gone back and forth on this over the years—the two highest states with the highest rate of error, Texas and Indiana. And those are the two states that decided that it was a good idea to privatize the food stamp program.

I appreciate where you have gone on the error rate and bringing it down. And with that increase that I just cited, it is pretty extraordinary that we have been able to keep that error rate where it is. I wish Wall Street had less of an error—that kind of an error rate than you all have done with your program.

Mr. BISHOP. With regard to Ms. Kaptur's concern, one of the things that I have to applaud the Agriculture Department for with our commodity support programs is that they were reinforcing and restocking the soup kitchens and the food pantries during this recession. The food pantries, because of the numbers that Ms. DeLauro just got through citing, were running out of food. But because of the funds that were allocated and set aside by USDA in our commodity programs, they were able to restock those organizations that are very, very appreciated, church organizations and others.

But that is necessary for folks like Ms. Kaptur's constituent, many of them.

CHINESE POULTRY

Ms. DELAURO. I thank the gentleman. And let me just move, if I can—I do not know how much time is remaining—but to Chinese poultry. Chinese public found 70 percent of—70 percent of the Chinese folks are not confident about the safety of their country's food supply. Another report stated that Chinese are pursuing their own food safety measures by growing their own vegetables. They are concerned about pickled vegetables, canned food, dairy products, fresh meat, meat products. Contaminated meat products was one of the items that topped their list.

We have seen reports that China has sentenced a food safety activist for two-and-a-half years for organizing parents whose children were sickened in the 2008 Chinese milk scandal.

You did conduct the audits between December 1st and December 21st. In conducting the audits, analyzing the results, does FSIS factor in things like the reports I outlined? When will the audits be posted on the FSIS website? Did the Chinese Government provide you with a list of the six facilities that were visited by FSIS? Will the six facilities be eligible to export poultry to the U.S., if there is an equivalency determination? I think you answered that question.

It is my understanding that allowing the Chinese to export products from a slaughtering facility would require a separate rule. And, finally, has the USDA calculated how the U.S. poultry industry would be impacted if we had allowed increased poultry exports from China?

Mr. KINGSTON. The gentlewoman's time has expired. The chair has the time, and will yield one minute to——

Ms. DELAURO. I thank the gentleman. Thank you.

Secretary VILSACK. I wish you had only given me 10 seconds, Mr. Chairman. [Laughter.]

You have asked a lot of questions, and I think we will provide you with the specific answers to those questions.

Ms. DELAURO. Okay.

Secretary VILSACK. I would say the last question you asked, in terms of the impact——

Ms. DELAURO. Impact, right.

Secretary VILSACK [continuing]. You know, a lot of our poultry is actually going into China and being processed and brought back. So, in that sense, there is some benefit, potentially, to our poultry growers.

We want to make sure that when we do this, if we do it, we do it safely. I know that is the concern that you have always had. It is what has motivated your concern in this area. We have taken it very seriously. And the folks have spent a lot of time and asked a lot of detailed questions about these operations. And not every operation in China is going to get permission to do this, only those that we are confident will meet our standards, or exceed our standards.

There are some that will meet and exceed our standards. And if they do, then we ought to let them participate. If they do not, we should not. And that is one of the reasons why we have reservations about poultry coming from China, slaughtered in China. We are just not yet comfortable there. And we will not move until we are.

[The information follows:]

FSIS does not typically incorporate such public survey information into its equivalence analysis process because of the unscientific nature of such data, findings, and conclusions, although the Agency does maintain a general awareness of such information from third party sources. Ultimately, FSIS' approach to a food safety system audit relies on a verifiable scientific, data driven analysis of the government's handling of food safety issues.

Once the two China audit reports (slaughter and processing) are finalized they will be posted on the FSIS website no later than 30 days from the date they are finalized, in accordance with the 30-day requirement stipulated in the FY 2010 Agriculture Appropriations Act (P.L. 111–80).

Ms. DELAURO. Thank you.

Mr. KINGSTON. The chair yields to Mr. Bishop.

PEANUT PRICE REPORTING

Mr. BISHOP. Mr. Secretary, in March of 2009 the Inspector General completed an audit of in-shell peanut prices that are paid to farmers and reported to the National Agricultural Statistics Service. And FSA, they use this data to calculate the program payments. The OIG believes that the price data that is supplied by the peanut buyers is unreliable, and that FSA should seek authority for mandatory price reporting of all in-shell peanuts.

While I look forward to working with the Department to resolve this issue, it seemed that any proposal to provide FSA with new statutory authority on price reporting should be done in the broader context of the upcoming 2012 farm bill, and that is a single, stand-alone issue. Likely, there will be considerable changes and modifications to the current structure of many of our farm programs, and any proposed changes to the peanut program should really be a part of that discussion, whenever it occurs.

I just wanted to sort of share my thoughts with you on this, as it is a subject that is very important to me, being from Georgia. And not speaking for the chairman, but probably important to the chairman, as well.

Secretary VILSACK. You know, the investigation report indicated that perhaps some of those prices were being under-reported, and that is obviously a concern, because a lot of decisions are made as a result of that information. And so, we want to make sure that the data that folks are making very important decisions on is as good as it can be. That is why we think that it is appropriate to consider seriously a mandatory reporting requirement.

We are looking for ways in which we can make the process more transparent, and provide folks information. And we will work with folks to make that happen. If it is part of a larger discussion, that is obviously Congress's wish. But our view is that if we want to get correct information to people, we are going to have to have something different than what we have got now. Because what we are getting is not necessarily accurate.

Mr. BISHOP. Thank you. I will yield.

Mr. KINGSTON. Ms. Kaptur.

FEDERAL PROGRAM ASSISTANCE

Ms. KAPTUR. Thank you. I am sorry Ms. Lummis left the room. I have to react, and just put some data on the record here. The TEFAP program alone provides a third of the commodities that we have in our food banks in Ohio.

[The information follows:]

Total USDA Subsidies in United States, 1995-2009

Subsidy Recipients 1 to 20 of 3,540,735

Recipients of **Total USDA Subsidies** from farms in United States totaled **$246,718,000,000** in from 1995-2009.

Rank	Recipient (* ownership information available)	Location	Total USDA Subsidies 1995-2009
1	Riceland Foods Inc	Stuttgart, AR 72160	$554,343,039
2	Producers Rice Mill Inc *	Stuttgart, AR 72160	$314,028,012
3	Farmers Rice Coop	Sacramento, CA 95851	$146,174,314
4	Harvest States Cooperatives	Saint Paul, MN 55164	$49,489,434
5	Dnrc Trust Land Management - Exem	Helena, MT 59620	$47,207,258
6	Ducks Unlimited Inc *	Memphis, TN 38120	$44,889,145
7	Tyler Farms *	Helena, AR 72342	$37,009,744
8	Sd Building Authority	Sioux Falls, SD 57117	$31,110,468
9	Pilgrim's Pride Corporation *	Broadway, VA 22815	$26,461,206
10	Missouri Delta Farms *	Sikeston, MO 63801	$25,280,578
11	Bureau Of Indian Affairs *	Prescott, AZ 86304	$23,842,040
12	Montana Board Of Investments - Se	Saint Paul, MN 55170	$23,448,121
13	Dublin Farms *	Corcoran, CA 93212	$22,302,288
14	Due West *	Glendora, MS 38928	$21,668,016
15	Kelley Enterprises *	Burlison, TN 38015	$19,132,259
16	Balmoral Farming Partnership *	Newellton, LA 71357	$18,931,722
17	Gila River Farms *	Sacaton, AZ 85147	$18,607,093
18	Cargill Turkey Products	Harrisonburg, VA 22801	$17,593,150
19	Colorado River Indian Tribes Farm *	Parker, AZ 85344	$17,589,918
20	Napi *	Farmington, NM 87499	$17,215,618

* USDA data are not "transparent" for many payments made to recipients through most cooperatives. Recipients of payments made through most cooperatives, and the amounts, have not been made public. To see ownership information, click on the name, then click on the link that is titled Ownership Information.

Next >>

USDA subsidies in **the United States** totaled **$246.7 billion** from 1995-2009.

Total USDA - Subsidies by state, 1995-2009

Rank	State	Total USDA - Subsidies 1995-2009	Pct of Total	Running Percentage
1	Texas	$23,081,131,365	9.4%	9.4%
2	Iowa	$20,980,781,083	8.5%	17.9%
3	Illinois	$17,585,056,426	7.1%	25.0%
4	Minnesota	$14,382,350,760	5.8%	30.8%
5	Nebraska	$13,996,322,800	5.7%	36.5%
6	Kansas	$13,521,420,060	5.5%	42 0%
7	North Dakota	$11,681,616,620	4.7%	46.7%
8	Arkansas	$9,597,577,111	3.9%	50.6%
9	California	$9,250,975,641	3.7%	54 3%
10	South Dakota	$8,964,602,739	3.6%	58 0%
11	Indiana	$8,723,193,778	3.5%	61.5%
12	Missouri	$8,500,620,544	3.4%	65.0%
13	Mississippi	$7,277,927,568	2.9%	67.9%
14	Ohio	$6,459,228,903	2.6%	70.5%
15	Wisconsin	$5,939,119,915	2.4%	72.9%
16	Georgia	$5,814,771,408	2.4%	75.3%
17	Montana	$5,519,852,612	2.2%	77.5%
18	Oklahoma	$5,029,761,066	2.0%	79.6%
19	Louisiana	$4,884,729,851	2.0%	81.5%
20	North Carolina	$4,526,799,992	1.8%	83.4%
21	Colorado	$4,500,010,198	1.8%	85.2%
22	Michigan	$4,109,214,756	1.7%	86.9%
23	Washington	$3,660,361,096	1.5%	88.4%
24	Tennessee	$3,168,114,277	1 3%	89 6%
25	Kentucky	$3,033,583,273	1.2%	90.9%
26	Alabama	$2,775,961,809	1 1%	92.0%
27	Idaho	$2,716,575,108	1 1%	93 1%
28	Florida	$2,391,006,602	1 0%	94 1%
29	Pennsylvania	$1,719,705,638	0.7%	94.8%

30	New York	$1,662,989,197	0.7%	95.4%
31	South Carolina	$1,628,196,861	0 7%	96.1%
32	Virginia	$1,611,109,310	0.7%	96.7%
33	Oregon	$1,607,547,608	0.7%	97.4%
34	Arizona	$1,394,433,385	0.6%	98.0%
35	New Mexico	$1,230,288,299	0.5%	98.5%
36	Maryland	$915,146,938	0.4%	98.8%
37	Wyoming	$669,365,942	0.3%	99.1%
38	Utah	$577,505,707	0.2%	99.3%
39	Delaware	$271,863,859	0.1%	99 5%
40	Vermont	$252,272,838	0.1%	99.6%
41	Maine	$216,567,491	0.1%	99.6%
42	New Jersey	$192,790,214	0.1%	99.7%
43	West Virginia	$164,516,521	0.1%	99.8%
44	Massachusetts	$122,944,371	0.0%	99.8%
45	Connecticut	$118,983,888	0 0%	99.9%
46	Nevada	$113,299,482	0.0%	99.9%
47	New Hampshire	$58,664,382	0.0%	100.0%
48	Hawaii	$58,020,071	0.0%	100.0%
49	Alaska	$41,045,008	0.0%	100.0%
50	Rhode Island	$17,521,543	0.0%	100.0%
51	District of Columbia	$231,479	0.0%	100 0%

Source: Environmental Working Group. Compiled from USDA data.

APPENDIX R

MINERAL REVENUE PAYMENTS TO STATES[1/]

(in thousands of dollars)

State	2010 Actual	2011 Estimate	2012 Estimate
Alabama	5,003	5,316	5,909
Alaska	35,662	19,461	20,997
Arizona	26	29	32
Arkansas	3,107	2,128	2,342
California	61,634	66,964	74,460
Colorado	133,634	145,188	161,438
Florida	47	51	57
Idaho	3,987	4,331	4,816
Illinois	262	22	24
Indiana	8	3	4
Kansas	1,462	1,578	1,755
Kentucky	136	47	51
Louisiana	3,123	3,165	3,517
Michigan	466	454	503
Minnesota	13	6	6
Mississippi	635	283	304
Missouri	3,288	1,320	1,409
Montana	43,765	47,550	52,872
Nebraska	163	177	197
Nevada	12,964	14,085	15,662
New Mexico	380,694	413,619	459,915
North Dakota	37,796	19,310	21,444
Ohio	377	64	69
Oklahoma	2,780	2,741	3,046
Oregon	330	358	398
Pennsylvania	87	19	20
South Carolina	1	0	0
South Dakota	768	834	927
Texas	14,856	6,058	6,517
Utah	142,697	155,038	172,391
Virginia	59	13	14
Washington	87	95	106
West Virginia	404	84	91
Wyoming	886,871	963,573	1,071,424
TOTAL	1,777,192	1,873,964	2,082,717

[1/] *Payments include Mineral Leasing Associated Payments, National Forest Fund Payments to States and Payments to States from Lands Acquired for Flood Control, Navigation and Allied Purposes. Payments reflect the Net Receipts Sharing provision in the 2010 Enacted/2011 CR and proposed in the 2012 President's Budget.*

And it is obvious that her district must be very different than my own, because we could not survive without the federal programs. Everybody is strung out: our churches, our Saint Vincent DePaul Societies, anybody working in the food area. We have had heart attacks among these seniors working in some of these programs. They are literally at the edge.

And so, I take exception to her remarks. She represents a different part of America. Wyoming is kind of an interesting state. It has gotten over a billion dollars in mineral rights subsidies that we pay out as a government. Just in her state they have gotten: disaster payments of over $167 million since 1995; and the Conservation Reserve Program, over $125 million; in the wheat subsidy program, $86 million; in the EQIP program over $80 million. I can go down all the lists. But Wyoming, in many ways, is a federal preserve.

I do not represent a federal preserve. We are out there in the free market, and times are tough. So I just wanted to place on the record that I have deep respect for the people who are trying to feed hungry people. And my biggest challenge is trying to work with USDA and others to figure out how we can be more self-sufficient inside the boundaries of these communities that are so terribly, terribly impacted with hunger and with need. And I am amazed at the patience of the American people in enduring what they are being asked to endure.

And I am very, very worried about food. And our United Way has had to cut back projects because of the hunger needs across our community. Every single group, every single group. There just is not any more, unless we can produce our own.

And I was very pleased, Mr. Secretary, that you talked about what you are trying to do in Cleveland. But that is not the only place in Ohio that is so severely impacted. So, I would hope that whatever we are able to work out through USDA that we could go into these heavily impacted areas, bring new technology, bring seed as we embark upon the spring season here. We can produce more of our own.

We need help in aquaculture. All these fancy research projects, they keep it down the state capital. They keep it down, wherever. They don't move it out into community is a real problem and we are capable of doing this. But we do need USDA's direct engagement with us through their stakeholders statewide and so forth.

We have very willing people. We are technology short and training short in areas where we are food short and we can produce it ourselves, but we need more focus. We need more prototype projects. We need USDA to help us. Our people don't get all these subsidies for mineral rights and everything else.

So we do live in a different part of America, and we're there to help you with your budget. But to the extent that you can provide the information I asked on the first round of who's getting all these big, mandatory payments out there in the country in a time when we have to trim in terms of the overall budget and balancing the overall budget, it shouldn't come out of the hides of people who are truly living at the edge. And these areas that have got 10, 12, 15 percent unemployment, we've got some neighborhoods in Youngstown and Toledo, 50 percent unemployment.

FOOD ACCESS

Recognized reality in the part of America that we come from, and USDA is very, very important to us right now, and we have to be transformative in what we do. We have whole sections of community with no supermarket. I mean the places aren't there to buy the food, folks. It isn't like here in Washington, and even parts of Washington don't have supermarkets. So we have got to provide food close to where people live and technology has to lead us there.

I'm saying it as much for the Secretary as for everybody sitting out there in the audience representing these different interest groups. We have to use our technology to save us. What I saw in Israel was phenomenal: little hoop houses, little greenhouses, that look like some of those that we are trying to use in our cities now, but we've got to hook up solar capacity so that we can heat them through the winter months. We can make them productive four months out of the year.

USDA, all you have to do is shake up some of these researchers that are sitting in these fancy labs all over the state of Ohio, and they never come down in our communities. That isn't good enough anymore, because the need is too great. So I make my plea. You've heard me once and again and again and again, and we can't get these big bureaucracies to move effectively.

If there's anybody out there in the audience who wants to come to the Ninth Congressional District from Toledo all the way over to Cleveland, you're all invited to come. I invite you, Mr. Secretary. Maybe you can get the bureaucracies to really disgorge some of that knowledge and make it relevant to people on the street. But we don't have the time.

We don't have the luxury right now, and we don't get the billion-dollar mineral subsidies and forestry subsidies, and agricultural subsidies like the state of Wyoming. And, probably, some sort of oil depletion subsidy that I haven't figured out yet out there, a gas subsidy or something. But we need help in the food sector, and Detroit does and a lot of other places that are really at the edge, and I thank you very much for allowing me to put that on the record.

Mr. KINGSTON. Mr. Secretary, do you want 10 seconds to respond to that?

Secretary VILSACK. Well, I appreciate that, Mr. Chairman.

I think it is important for us to make sure that you all understand and appreciate we are taking all of these challenges very seriously, and we have a healthy food financing initiative that was in our 2011 budget. It is in our 2012 budget designed to address the issue food deserts.

We have done an atlas. We have identified where these food deserts are. We have creative programs that are working in Detroit and other major metropolitan areas to try to address the food desert issue. We are very serious about that. We are very focused about it, and we are going to get things done about it.

We have everything from value-added producer grants to farmer market promotion grants, to hunger free community grants, to using our business and industry loan programs to try to address some of the issues that you've addressed in terms of urban farming. We have our people's garden program, which is providing—last year provided 90,000 pounds of donated food to soup kitchens and to food banks.

There is a concerted effort on this, and, you know, one of the challenges and one of the frustrations that I have. Since you all have been expressing your frustration, let me express one of mine. This is a department that has a lot of missions and we are talking about a lot of missions all the time. And it is very difficult to focus on one piece of our mission to the exclusion of everything else. We have got to talk about production and agriculture, because that's important. We have got to talk about rural development. That's important. We have got to talk about exports. That's important. We have to talk about food safety. That's important. We have to talk about new, creative ways to embrace farming in all parts of the country, and we are doing all of that, all of it.

I would encourage you to take a look at our website. I would encourage you to take a look at these programs in terms of where these resources are going. We are very serious about this issue. And to the gentlewoman's comments about the food programs, we are proposing an additional amount in these food programs, and I would say the state of Texas is a good example.

They had a horrible record, and we basically went down to Texas and said, "You've got a horrible record. We're here to help." And, to their credit, they responded and actually engaged the non-profit sector and outreach to encourage more SNAP participation, and they've seen their numbers increase dramatically.

And Indiana, to its credit, finally realized that they were making a serious mistake in terms of how they were administering their program, and they are in the process of transitioning, and that has improved the record as well. So we, I think, are on top of a lot of these issues. It's just hard to talk about all of them simultaneously.

Mr. KINGSTON. Reclaiming my time, Mr. Secretary, one of the things I wanted to say for the record in terms of the gentlewoman from Wyoming. I know her well and I know that she will measure spending with the same yardstick regardless of the social spending or mineral rights, or anything else.

I think that she is going to be an extremely valuable committee member in that regard and that she will challenge all of us, which I think is very important. But I think, you know, we will all see she will go after the Red State, the Blue State Program, the big corporation. I think she has that same populace streak the gentlewoman from Ohio has and a very positive populace streak.

EPA REGULATIONS

Mr. Secretary, on that subject of the USDA and your broad mission, when I think of USDA, I would describe it on a bumper sticker of a resource to farmers, a technical partner to farmers, an information center for farmers. And I think that the farmers in my district would probably say, yeah. That's right. If I say EPA, it's totally off the page. It's just rant and rave. They are against us, they are regulatory. They want to play "I gotcha."

They are arbitrary and it's always—not always, but I think in the last decade or so that the USDA has kind of been a buffer between the EPA and the farmer, but the EPA is getting more and more aggressive. They have issued 25 new regulations and proposals that affect production of agriculture. And I am not saying that is all bad regulation, but farmers would rather deal with USDA as they feel that the USDA employees tend to come from rural areas and understand farming, and appreciate their mission; whereas, EPA, again, comes at it from a regulatory angle.

They are coming out with a new pesticide general permit that has to be in place April 9th that has some concerns. There has been a court decision on it. There are some other issues that EPA is coming out with last year. We dealt with a potential regulation that said that dairy farmers had to have an emergency plan if they spilled milk, because it was an oil-based liquid, and things that again may be well intended, but still very, very regulatory and difficult for farmers.

For the record, I would like you to respond to that of what you are doing. You had mentioned earlier you dealt with them. You talked to them regularly, but I think the farmers back home would rather see you step it up a little bit more and help maybe settle some differences between EPA, same mission as you guys, but I think that you had a better feel for rural America.

Secretary VILSACK. Mr. Chairman, first of all, Lisa Jackson can do a great job of explaining her agency, and no doubt you will have an opportunity to visit with her at some point. But let me just simply say that often what they are required to do is not something that they have thought they ought to do. It is because Congress has directed them to do it, or a court has directed them to do it.

And, what we faced when we came into this administration was a backlog of undecided court cases and undecided mandates, and so forth, that this EPA was required by law and by court decision to address. So that's number one.

Number two, you know, there are ways that you can work within the system and outside the system to try to impact and affect, and make sure that the regulations are as good as they should be and as reasonable as they should be. We have had some good success, I think, in making sure that whatever is ultimately decided and ultimately put into effect; not what's being proposed or what's being discussed, or what the folks in the countryside think might be being proposed, but what in fact is proposed.

I think we have had a pretty good track record of modifying and sort of cutting off some of the potentially egregious proposals by working with the EPA, by working in partnership by developing lines of communication, both between our office and EPA, and most importantly between producers and EPA. And we have encouraged the administrator to get out into rural America, and she has done that and she is going to do more of that.

So, you know, I think that is a very effective way. If what you have and what the desire is that we somehow pound the table and criticize openly EPA, I am not sure that that would necessarily be as persuasive in the ultimate end result.

Mr. KINGSTON. Well, my time has expired. I think you are a blend of philosophy and common sense, and temperament, and I don't think that's prevalent at the EPA. And I think that the folks back home in rural America see a big difference in the agencies, and they would like you to be maybe a little bit more of an advocate for them.

In between the two, I would see you sometimes as being a referee, and I don't mean that you're being remiss on this at all, but I'm just saying that I think production agriculture feels like they are being besieged by new EPA regulations over and over again, and USDA, maybe, could be more of a buffer.

Secretary VILSACK. I think that they have to understand that one of the reasons why they have that perception is because there was a lot of things that weren't done that were sort of backlogged, and a lot of things that courts are now saying you've got to do, on the one you mentioned, the pesticide. EPA went in and said, "Give us a little more time." The court said, "No, you've got to do it now. You've been given time. You need to do it now."

So, you know, what are they supposed to do? I mean they got a court order telling them they have got to do it. They got to do it. And what we try to do is make sure that when they do it, how they structure it, that they fully understand or appreciate exactly how the impact is going to be, and you can add that to a list of things I need to talk more about along with everything else that you all talked about. And that's just the point. There is a lot to talk about in this agency.

Mr. KINGSTON. Yes. My time is expired. Mr. Farr.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

Mr. FARR. Mr. Chairman, I have a couple of sort of micro questions, one on the Special Supplemental Nutrition Program for Women, Infants, and Children—WIC—breastfeeding and formulas. WIC people met with me yesterday and were telling me that we put a lot of emphasis in teaching breastfeeding, but the tragedy is that about 70 percent of the women after leaving the hospital drop the breastfeeding and pick up the formula.

The concern was that the amount of money being spent in sort of advertising formula, and in the formula I guess there are two kinds. There's the super model formula, or the one that's got all the so-called functional ingredients, and it is costing your department about $90 million a year just for them to buy that. And the question here is has there been a plan or to study the difference between get some scientific review as to whether the higher-cost products are actually as effective as the formula industry claims?

Indeed, if the generic formula, I guess, for lack of a better word, is as good as the super product, the more high-cost product, why not just fund that? And have you any interest in looking at the difference between the two formulas in the sense of cost savings?

Secretary VILSACK. I hope this is a response to your question, and if it is not, we will have to get you a specific response. One thing I do know is that we have been working with states to slow the decline in rebates in this area, and despite our efforts, we have seen a drop from 95 percent of wholesale prices to 80 to 85 percent in 2009.

You know, we have revised the package. We are constantly looking for ways to make sure that we provide the best package for the most affordable cost.

Mr. FARR. I think it is not just cost. It is essentially what your leadership—and I appreciate this—leadership on, you know, agriculture is the basis of our whole new health care policy in America. If we are going to grow healthier Americans, it's got to start with nutrition. And the claims here, obviously, this is not my field.

The claims here that if the formula is really getting kids addicted on sort of an obesity program very early in life and if the emphasis here is to really minimize the amount of formula—some people have to have formula—but to minimize the formula by really educating people as to the total value of breastfeeding for as long as possible.

Secretary VILSACK. I think we are making an effort to increase education in that particular area, and I think the budget proposes additional resources for that education program.

[The information follows:]

The Healthy, Hunger-Free Kids Act of 2010 requires that we review the WIC food packages at least once every 10 years. The last review of the WIC food packages was initiated in 2003. As such, we anticipate initiating a new review within the next two years. We can certainly include taking a look at enhanced versus non-enhanced infant formula as part of the next review.

We must keep in mind, however, the Food and Drug Administration determines the regulatory requirements for infant formulas and determines if a product may be marketed in the United States. Due to the array of infant formulas that are produced and in order to ensure infant formula rebate solicitations remain competitive, WIC Program regulations require State agencies to issue rebate solicitations for an infant formula that is suitable for routine issuance to the majority of generally healthy, full-term infants. The infant formula manufacturer determines the formula that best meets this requirement.The lowest bidder is awarded the contract and the formula that the manufacturer bid is considered the Primary Contract Brand infant formula. The Primary Contract Brand formula is considered the formula of first choice and all other infant formulas are considered alternative formulas. However, all formula in the manufacture's infant formula product line is considered contract formula. But, if the infant formula manufacturer adds a new, more costly formula after the contract is awarded, WIC State agencies have the discretion to deny its inclusion to the State agency's allowable food list.

Mr. FARR. Yeah. And I hope that the point is that maybe some savings, if you are going to look for savings, it might be from not authorizing this higher cost formula that doesn't really get a bang for the buck. That's the question. Secondly, on the other micro—and this will finish my round—this came from the cattlemen.

INTERNATIONAL IMPORTATION AND TRADE

Explain to me. South Korea has foot and mouth disease, and therefore we don't import any live—I mean we only import cooked meat from South Korea for importing anything right now.

Secretary VILSACK. I believe that is accurate. There is a certain temperature that it has to be cooked in.

Mr. FARR. But, however, we are importing from Brazil and Argentina that also have foot and mouth disease, but the cattlemen don't want it. Frankly, they don't want any live meat brought in or raw meat brought in from those two countries for the same health risk issues as these issues that you have determined shouldn't bring any uncooked meat in from South Korea.

Secretary VILSACK. We have been able to determine that there are certain regions of those countries that are foot and mouth free.

Mr. FARR. But, how effective are we then? I mean, you know, those diseases cross boundary lines so quickly.

Secretary VILSACK. I think we have been effective so far, because we haven't had that circumstance in the country.

Mr. FARR. Yeah. I know that. It seems to me that is a weak response, because, you know, we deal with all these exotic pests and we know damned well that they break out from county to county. It is very hard to stop that. And I don't know a lot about foot and mouth disease, but it is supposed to be really bad.

Secretary VILSACK. Yeah. Yeah. I mean there are a series of steps in the process. First of all, establishing that it is foot and mouth free; secondly, there are inspection processes both in country and at the border that APHIS is engaged in and the customs folks are engaged in. So, I mean it is not as if we are just not paying attention to this. We are paying attention to it, and, obviously, we take this very seriously.

BRAZIL COTTON

Mr. FARR. Well, I think what scares—the bigger picture—is that the cattlemen feel very hurt by the fact that it seemed like they were a trade-off allowing certain counties in Brazil to export trade-off for that incredibly dumb deal that we had to make for cotton by paying hundreds of millions of dollars.

Secretary VILSACK. With due respect, Representative, it was not a dumb deal, and I will push back on that. And here is why it wasn't a dumb deal. We would have been hit with $800 million of penalties as a result of the WTO case.

$500 million of it would have been additional tariffs on our products, and almost $300 million on intellectual property that would have significantly compromised potential agri-business interests in terms of our ability to protect our intellectual property.

Mr. FARR. Why don't we deal with that in the Farm Bill rather than——

Secretary VILSACK. Well, we have to deal with the cotton issue and we have to deal with the GSM 102 program in terms of whether or not it is providing, in terms of the repayment period and the interest rate, whether it is providing a level playing field, if you will, for the rest of the world. We will have to deal with that and the payments to Brazil stop when it is dealt with in the Farm Bill.

Mr. FARR. Well, but can we get a better answer than on the importation of cattle from Brazil?

Secretary VILSACK. I am not sure what you are looking for, sir. I mean the reality is we have established that there is no risk in these regions. We have established an inspection process in place to prevent it, if it does in fact hit us at the border. And we have not had an incident.

Mr. FARR. Well, I don't know how much, if we look at the amount of imports.

Secretary VILSACK. Well, we can provide you that information. Sure.

[The information follows:]

Brazil requested that the United States allow imports of swine, ruminants, and their products, including beef from the State of Santa Catarina. APHIS completed the risk analysis for the request in January 2009. The risk analysis showed that the State of Santa Catarina is free of foot-and-mouth disease (FMD), as well as major swine diseases of concern. In accordance with international trade standards, APHIS also found that Santa Catarina's veterinary infrastructure is capable of preventing, detecting, controlling, and managing outbreaks should a disease occur in the region. Additionally, no outbreaks of FMD have occurred in Santa Catarina since 1993, and the World Organization for Animal Health recognized Santa Catarina as free of FMD without vaccination in 2007.

[redacted]	Thousands of dollars												
	2009	2010											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Imports; Brazil; Live Animals (predominantly horses)	557	195	448	113	0	151	196	86	11	105	14	342	146

Mr. FARR. Thank you.
Mr. KINGSTON. Ms. DeLauro.
Ms. DELAURO. Thank you, Mr. Chairman.

CHINESE POULTRY

Mr. Secretary, a final question on the Chinese chicken issue, and then I want to ask an animal I.D. question. In the past you have supported the rider language that has been in the bill with regard to Chinese chickens. And let me just ask you if you will continue to support that language.

Secretary VILSACK. I'm sorry. The language?

Ms. DELAURO. The language that is in the——

Secretary VILSACK. That basically provides us——

Ms. DELAURO [continuing]. What has been removed in the CR. Would you continue to support that language?

Secretary VILSACK. We are happy to continue to provide you with reports, and basically live with the agreement that was reached last year, or a year and a half ago, whenever it was.

Ms. DELAURO. And that's what the language would require. Thank you. Thank you, Mr. Secretary.

Secretary VILSACK. Yes, I am happy to live with it.

NATIONAL ANIMAL IDENTIFICATION PROGRAM

Ms. DELAURO. Again, we have had a conversation about animal ID in the past, and I noted with regard to the APHIS budget that it has been reduced by about $72 million. But eliminating the funding for a number of activities, it includes several increases, including $9 million for the animal ID program. And we have gone through this before with $145 million that we have already spent there, and my view of it is instead of a strong national program.

I think what we have here is a fragmented system with standards that are negotiable and applies to some animals moving across state lines. And the budget requests more than $14 million. It's an increase of $9 million for the program.

I value an animal ID program. I really do. I support that effort, but I think it is strange to me how we can support the agency's new plan when both its path and its destination, I think, are inadequately defined at this point. And how was the agency work to define outcomes in the past to achieving them to ensure success of this program? Are we still moving towards the system that enables traceback of any livestock species in two days, and will all beef and dairy cattle be included in this program?

Secretary VILSACK. This is a program that by the very nature of it was not very well received, less participation than we had hoped. So the determination was made to try a different route. The route that we are trying, I think over time, gets to all cattle, but it will take some time to get to all cattle. And there are performance standards that we are establishing in concert with the state Agriculture commissioners and tribes that we think are doable and they allow us to trace back to the state of origin in a relatively short period of time.

There are a variety of standards that we are currently looking at, just to give you a sense, in terms of measuring the time required for a state where a diseased animal was found to determine what state or tribe the animal immediately came from. We think that eventually we want to get this down to three business days. We want to be able to do this in a way that is most effective and least costly so that there is more participation and involvement.

And that's the reason why the additional money is being asked for, because we want to provide incentives and resources to producers in the states so they will be more inclined to accept this program than they were the last program. The last program just wasn't very effective when only 30 percent of the people participated.

Ms. DELAURO. We will still maintain our differences in this area, Mr. Secretary, and we will have many more conversations about it.

FOOD SAFETY WORKING GROUP

Quick question, if I can, on the food safety working group. The budget request is about $4 million less and you all recommended, which I support, increased sampling and funding for additional baseline studies with regard to the prevalence of pathogens in food products. But we see a $4 million decrease in this effort. What is different between 2011 and 2012 in those proposals? Are we looking at something of a less robust program of sampling and study in light of the pressure to cut spending?

If we do receive an $88 million reduction like that proposed by the House majority, will that result in less sampling and less data gathering to identify risk to public safety from contaminated meat and poultry products?

Secretary VILSACK. The sampling, primarily the savings in sampling are the way in which we are conducting the sampling and the shipping costs. We had a program called the Save Award, in which we asked people to identify where money could be saved. And one of the savings had to do with how we shipped back the empty containers that are used in sampling. And someone finally concluded it would be just better not to use the most expensive way of shipping those sampling cartons back. So that saves about a million and a half dollars.

Primarily, what we have done with FSIS is we had a study done of looking at how we use our workforce and how we can use it more efficiently and effectively, and they identified some savings that we are applying to offset some increases in FSIS that we are proposing. I don't anticipate that this is going to result in us doing less. In fact, I would anticipate we will probably do more, because we were identifying other pathogens that we need to be taking very seriously in taking a look at. And we are obviously hopeful that we can get the performance standards in the poultry area through the process in an expeditious way, so that too will require additional scrutiny.

We are focused, primarily, on establishing a public health information system that will allow us to do a better job of collecting data and be able to potentially predict trends and predict problems before they occur, and we are trying to work to develop a better unified incident command response so that we can respond more quickly than we have in the past, and do it in a more coordinated fashion with FDA.

Ms. DELAURO. Thank you very much, Mr. Secretary, and I will just, the rest of the questions, submit for the record.

Mr. KINGSTON. Ms. Kaptur.

PAYMENTS AND SUBSIDIES

Ms. KAPTUR. Thank you, Mr. Chairman, and I would like to submit for the record the mineral revenue payments to the states where Wyoming leads with over a billion dollars.

I also want to submit to the record all the USDA subsidies since 1995 to the present showing very large companies getting over half a billion dollars in subsidies. We will submit the top 20, and then also a ranking of the way that USDA subsidies go out to all the states. I think if I submitted this for the record now, as we proceed forward this year, we are going to be able to inject not just efficiency but equity in the kinds of cuts that we make.

I also wanted to mention that if we look for a state like Wyoming, compared to my own, the state of Wyoming doesn't even have as many people as I have in my congressional district. The state of Wyoming has 544,270 people. They rank very high in terms of per capita federal spending: $38,705 per resident. This is all federal spending in the tiny state of Wyoming—very, very interesting, the distribution of federal dollars.

And a state like Ohio with 11 million people, many of whom are strapped right now, the statewide per capita for us is less than half that much. It's about $15,749 per citizen. So one asks oneself what's going on here in the distribution of federal dollars in a time of deep recession—very, very important to look at the whole of what's going on in this country, and why some people don't feel the pain and other places feel it very, very much.

RENEWABLE ENERGY PROGRAMS

Mr. Secretary, I wanted to ask you a little bit about your renewable energy programs, and I really want to compliment you for the work that you dedicated your life to in this area. What do you see happening on the energy production front, the pace of research in some of our biofuels, the types of contracts, perhaps USDA's been involved in, whether it is solar fields, whether it is wind farms, whether it is biofuels, plants? Could you just kind of give us a little backdrop on where you see USDA heading in the future in terms of these energy programs that are so vitally important to us and that could be renewable?

Secretary VILSACK. Yes. We see this as a critical component to rebuilding a rural economy that works for folks. We have five regional research centers. They are virtual centers that are basically focusing on trying to identify more efficient ways to use renewable energy.

We are aggressively promoting the Rural Energy for America Program—REAP. We have over 4,000 projects that have already been funded under REAP. There are 68 feasibility studies that we recently announced to look at alternative and more efficient ways to produce bioenergy, biofuels, renewable energy. We are working with farmers and ranchers to encourage them to incorporate renewable sources on their properties. We have already saved 4.3 billion kilowatts of power by virtue of the programs that we have sponsored. So we are going to continue to see more and more of this.

We are going to continue to see it as a very important part of the innovation strategy the President has established. Clean energy is a future opportunity for this country. You know, if you want to rebuild an economy, you have to build something or do something that nobody else is doing, or you have to do it better than everyone else is doing. And in the clean energy area, there is an enormous opportunity for us.

So it is additional research. It is additional on the ground activities. It is working with these regional partnerships I have talked to Representative Farr about to encourage them to incorporate in their strategy renewable energy. It is about using the energy programs to build bio refineries to assist producers of feedstocks for advanced fuels to be able to do so in an economically feasible way. Here is one challenge that I think we have.

But I think there is a deep sentiment on the part of some in Congress to consider an abrupt end to the kinds of incentives and support that the industries have had in the past, specifically in the bio-fuel area.

My concern with it is that if you have an abrupt end, you are going to compromise your ability to continue the progress we have seen.

We saw this with the bio-diesel tax credit; when we basically ended that, we lost 12,000 jobs and 50 percent of production capacity, almost immediately.

This is a maturing industry; it is not a mature industry. And our view is that you need to really divide a glide path—not a cliff, but a glide path—for reducing the supports and tariffs over time; and that you need to think about redirecting some of those resources to building additional opportunities for bio-fuels vehicles that can use bio-fuel, and a more convenient supply.

So there is a lot of activity in this space, and we are going to continue to be aggressive about it, because it is a million jobs-plus, and $100 billion of capital investment.

Ms. KAPTUR. Thank you, thank you, Mr. Chairman.

Mr. KINGSTON. Thank you, Mr. Secretary.

Mr. Farr, do you guys want one more round? Or do you? Okay, one more round?

GOVERNMENT ACCOUNTABILITY OFFICE REPORT

Let me then ask you a question. You may or may not have seen the Wall Street article about a GAO report that is coming out on duplication of——

Secretary VILSACK. I have read the article.

Mr. KINGSTON. And I think we will all be looking forward to reading that GAO report and we will work with you on any of that duplication that you feel is—really, that is not my question so much as I just want to mention that when the GAO comes out, then we can more intelligently see what these things are.

FOREIGN AID

But my question in this open-mike town meeting that you are doing so well at, Mr. Secretary: Have you ever read the book, Dead Aid by Dr. Dambisa Moyo, who is a Zambian woman?

Secretary VILSACK. No.

Mr. KINGSTON. It is actually a very interesting book about foreign aid, and how it is ruining the economies of particularly Africa.

One example that stuck in my mind—let's say you are in Senegal, there is a mosquito net maker, and he has got ten employees and he pays them $2,000 a year, and those ten employees support families with them.

And so, you know, he is chugging along, the small entrepreneur in Senegal. And then comes Bono or celebrity of the day, feeling all generous and compassionate, and well intended, and dumps 200,000 free mosquito nets on the market. And when that happens, the Senegalese entrepreneur is dead, because he is selling his nets for five bucks each.

You got free mosquito nets flooding the market now. He is out of business. The ten employees are out of work. Their dependents.

It is a very vicious cycle. And this woman, who was born in Zambia and got her Ph.D. from Oxford or a master's from Harvard and an M.B.A. from American University, who has worked for the World Bank and Goldman Sachs, and seems to be really a very intelligent person, has approached it in a very, I would say, thorough way, but says that so often our foreign aid is really killing the Third World and keeping them from being able to develop.

I worry about that with food aid, that so often we are putting food on the market and benefitting American farmers, and benefitting American shippers; but to the end-user maybe it is keeping them from learning how to grow their own food, and running off the budding entrepreneurs.

But that is the discussion that we need to have as a society.

There are companies, Land O' Lakes, for example, who are very interested in helping develop and nurture the entrepreneur in Africa. And I believe you were there several months ago?

Secretary VILSACK. I was there last year. Actually my youngest son is currently in Namibia, setting up a series of franchising arrangements for women-owned businesses to sell solar-powered technology to villagers in areas that have no electricity.

So I am somewhat familiar with what you are talking about.

Mr. KINGSTON. Well, the USDA employees that I have met in Africa, I think, are very on-hand, and they are doing a very good job. They seem to know the locals and know the local entrepreneurs and movers and shakers.

And it is very interesting to talk to them.

But I am concerned about that with food aid, that——

Secretary VILSACK. Well, if I can, you know, I think one of the reasons that you ought to be reassured is that we have got the Feed the Future Initiative, which is really designed to build capacity, to build, at least from an agricultural perspective, the capacity of people to be more productive agriculturally, and to build the markets that would allow for appropriate sale locally.

Mr. KINGSTON. Mm-hmm.

Secretary VILSACK. And to generate the revenue and income and to develop credit systems. And I think the Feed the Future Initiative is our effort to try to respond to the concerns at least within the agricultural space of capacity-building, as opposed to just simply "Here is food that you need."

Obviously there are emergency circumstances in situations where that is appropriate, and is necessary. The McGovern-Dole Program, I think, is appropriate, because it does create an incentive for kids to go to school and they get an education.

But overarching it is our Feed the Future Initiative with the United States Agency for International Development—USAID—to try to set up a much more productive agriculture.

Mr. KINGSTON. I would be interested in working on some pilot program concepts with you, if we could pick and choose some areas, and maybe look at doing some of these things differently.

For example, perhaps vouchers to some of the areas. Because I do feel that there is a corporate welfare angle to our food aid that may be as an unintended consequence, but it is still there.

Secretary VILSACK. We have got several pilots currently working along those lines in four or five different countries: Malawi, Tanzania, Cameroon, and a couple others.

So we probably should visit with you about those programs, and see whether that is in line with what you are talking about, or if you want to do something different, or more expansion of that effort.

Mr. KINGSTON. And I will invite you to read that book, because I know you have no reading material at all. And you are just bored out of your minds.

But I am sure somebody in the Department has read that book and is familiar with this woman. And I would like to get her down here as a witness to the hearing at some point in the future, because I think this was a very interesting book.

So I yield back.

Mr. Farr.

Mr. FARR. Well, thank you Mr. Chairman. I would like to follow up.

A week ago I was sitting in Jakarta, in the fourth most populous country in the world, Indonesia, and certainly the largest Muslim country in the world; 17,000 islands and 7,000 which were occupied on.

And one of them near the far end, independent country of East Timor, which we visited, was also one of the poorest countries in the world. And it really hits you when you do not even see just basic material things in a country like this.

I have been in the Peace Corps, and I have never seen—I would not call it abject poverty, because the people are not dejected—but just lack of access to any of the, you know, to enough food and water, just basics. You know, whole-culture poverty.

MCGOVERN-DOLE INTERNATIONAL FOOD FOR EDUCATION AND CHILD NUTRITION PROGRAM GRANTS

And so I am very concerned when the CR that we passed last week cut the program, the food aid program, in half, the McGovern-Dole Program.

And I wish you would enlighten a little bit more on what those kinds of cuts. You cannot go into alternatives, Mr. Chairman, you know, with vouchers, unless you have money to vouch.

And so if we are just whacking that program in half, it is going to have world-wide implications on our foreign policy and the reason we got into the food programs in the first place.

Secretary VILSACK. Twenty-eight million children have been benefitted from that program, somewhere between four and five million on an annual basis, since its inception.

The best way I can respond to that question is to just relay an experience I had with that McGovern-Dole program in Kenya.

We were at an orphanage, and it was an emotional moment for me, because I started out life in an orphanage. And so I, you know, in one sense I was trying to relate to these kids, who were in this orphanage.

And I was doling out the food for lunch. And they had the red cups in the World Food Program and you put a cupful of sorghum and rice into this cup. And for some of these kids, it is the only meal that they would get in a day.

And so I asked them—they were various ages—I said, "Why do you like coming here? Why do you like coming to school?"

You know, if you ask that question in the United States, somebody would say, "Well, I like it because I want to play football," or "I like it because I'm studying chemistry," or "I like it for music," or whatever.

They would give you some answer. Every single——

Mr. FARR. Recess——

Secretary VILSACK. Well, unfortunately there are not as many schools with recess. That is another issue.

But every single child I asked had the same answer: "I like this place, because I get fed."

So you know, if America wants to convey a sense of reaching out to people, that would be one program that I think we ought to think very seriously about maintaining; because it does create a relationship and it does help kids go to school. And that means they will be better educated over time, our hope is.

I would be very wary about that, from my own personal experience.

Mr. FARR. Well, sitting in the seat you sit, hopefully you will be very vocal about that, as we move on in the year.

WIC FORMULA PRODUCTS

And lastly, since this is the last round, I want to just get a response. I mentioned to you that you have the authority to commission an independent scientific review to determine whether the higher cost formula products are actually as effective as the formula industry claims. Would you be willing to look at that, if it is going to save you $90 million?

Secretary VILSACK. We ought to be always looking at opportunities to save $90 million.

Mr. FARR. All right. Well, I would like to pursue how you might do that.

I do not have any further questions, Mr. Chairman. Yield back.

Mr. KINGSTON. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman.

FOOD AID

Just to follow up on the food aid issue, which is an area, as you know I try to spend a lot of time on.

And I have to tell you, I think it is unconscionable, the cuts in the CR to Food for Peace, and for McGovern-Dole.

I listened to something the Secretary said. And the fact of the matter, McGovern-Dole is about girls, young girls. And if there is no program like this, they stay home; they go when this program exists, because their families figure that they may even be able to bring some food home at the end of the day for the rest of the family.

But I think we need to take a look at food aid in terms of national security. And that is just not me talking about that. You talk to the Defense Department, you talk to——

If you are going to want to feed your kid, you are going to take it from wherever you can get, be it the Taliban, be it some terrorist organization. If they feed your kid, hey, I will do whatever you say, lest my kid has to go hungry.

Now that being said, what we do is we do partner, as the Secretary said. Land O' Lakes, to be specific, in Tanzania, it's $8 million from the Federal Government, in order to participate in this program.

CARE, Catholic Relief Services, they do a great job, they do a wonderful job. But it's a partnership. They engage with the Federal Government.

So you've got a public/private, whenever it is, you've got a partnership here.

We should not be out of that mix, for our own national security, which is so incredible. You know, it sounds good: Cut foreign aid, you know. And it's a great piece of red meat that you throw before the public, and it just says, "Okay, that's where we're going."

That is, it's unwise in terms of what we do.

And I'm not saying that these folks would not participate, but they couldn't probably participate, some of these relief organizations, unless there were a federal commitment to this effort.

So let's look elsewhere, as I say. Where do we start to make the cuts? And there are lots of places we can do that.

SINGLE FOOD SAFETY AGENCY

I'll get back to you, I think, on this GAO report, because I want to read it first, Mr. Secretary, because you know where I'm going to go with this, and that's a single food agency, because that's one of the areas that they identified. And I will look carefully at what they say, and so forth.

And I think what I will want to ask you as a result of that, is how much savings do you think we can capture with a single food safety agency?

So. But I will reserve that until I read the report, and I'm just more knowledgeable about what they have said.

THE EMERGENCY FOOD ASSISTANCE PROGRAM

The Emergency Food Assistance Program, zeroing out the infrastructure grants, no particular reason, just cost savings, any——

Secretary VILSACK. Tough choices.

Ms. DELAURO. Okay.

DISCRIMINATION CASE SETTLEMENTS

Women Farmers. Let me just address that for a second. And I know you have been working in this area with women and Hispanic farmers. I applaud the move, and you know that I've been working on this for a while.

But I do have some concerns about the process. I would be less than honest.

As I understand it, the same total amount of funds as other discrimination case settlements, Pigford, Keepseagle. But it's spread out significantly among a larger number of farmers—not all women will be adequately reimbursed for the losses they incur.

Secretary VILSACK. That's not correct.

Ms. DELAURO. Okay. Please——

Secretary VILSACK. That's not correct.

Ms. DELAURO. Yeah. Okay. How will it work?

Secretary VILSACK. Well, there are basically two tiers.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. The first tier, depending upon the nature of your documentation of discrimination. You have documentation, you are entitled to $50,000, you're entitled to debt relief, and you're entitled to tax relief. And there's no cap on the number of people theoretically that could get that relief.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. So it's not correct to say that it's the same amount of money, because we don't know yet, because we don't know how many people will be able to provide the documentation.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. But whatever that number is, you multiply it by that amount. So it's an uncapped amount from the Judgment Fund.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. The second category are folks who do not have as extensive documentation, but still can establish a claim of discrimination. It may not be quite as strong in that case——

Ms. DELAURO. Much like Pigford II, if you will?

Secretary VILSACK. Yes. In that case, basically, there is a $1.2, $1.3 billion fund that those folks could basically partake in.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. And depending upon the number that's in that second group, will depend on how much. But they can get up to $50,000 in the same level of relief as the first group.

Ms. DELAURO. Mm-hmm. But Pigford II was not capped in any way, as I understand it? Is that right?

Secretary VILSACK. Oh, Pigford II was capped, because it was capped by the appropriations.

Ms. DELAURO. By the appropriation.

Secretary VILSACK. Yeah.

Ms. DELAURO. I'm going to take another look at this, in terms of——

Secretary VILSACK. I think, if I can maybe clear up the confusion?

Ms. DELAURO. Sure——

Secretary VILSACK. In Pigford I, you had two categories, you had $250,000, and you had something less than that. And the reason why you can't do that in this particular circumstance is because these cases were never certified as a class action.

Ms. DELAURO. I understand.

Secretary VILSACK. And that's because there's a third alternative. So you've got two tiers. The third alternative is if you don't like either one of those two tiers, you can pursue your lawsuit in court, which was not true in Pigford.

Once the Pigford settlement occurred, that was it, your rights were—you had to take the settlement or not.

Ms. DELAURO. Right. But you did have another round of Pigford, which had people who had filed their claims late. Look, and I supported the Pigford Resolution of what you did.

Secretary VILSACK. Right. But that's capped.

Ms. DELAURO. Mm-hmm.

Secretary VILSACK. And this is not capped. And you also have the right—they can't go to court—that women and Hispanic farmers, if they are not satisfied, can go to court.

Ms. DELAURO. But it's awfully difficult to go to court on your own, Mr. Secretary, I think you know that.

Secretary VILSACK. Listen, I'm on—yeah.

Ms. DELAURO. No, I understand. And I'll take a closer look at that, because I would like to get it resolved.

There are a very, very larger number of women farmers, who over the years have been discriminated against, and they ought to all have, you know, equal and fair treatment. And I know you're trying to move in that direction.

Mr. KINGSTON. [Off mic] The gentlewoman's time has expired. And the Chair recognizes Ms. Kaptur.

FOOD AID

But I wanted to say this. In terms of the food aid and the relationship, it might be a good exercise to look at the U.N. voting incident relationship with food aid.

I know, for example—and I think my memory is correct on this—that in 2000 we gave Afghanistan about $73 million in food aid. And if you look at sub-Saharan South Africa and what the—Botswana votes with us, Rwanda does not.

Most of them do not vote with us in the U.N. I've argued with the State Department that the U.N. voting record is irrelevant, if we're not going to use it for any meaningful relationship building. So much of the U.N. voting record has to do with Israel and Middle East politics, that I think the African countries have a hard time identifying with it.

But if you said, "Okay, we're only going to give food aid to those who vote with us, we could probably walk away from all of it."

Well, half of it. I'm not sure of the numbers are. I know Mr. Gohmert has actually introduced a bill that says: If you don't vote for us 50 percent of the time, we cut you off from all foreign aid.

And I think he's doing that to drive a message. But I would say, in terms of building relationships, when I have gone to Africa, I made it a point to ask them why they don't vote with us in the U.N. And they don't what the heck I'm talking about.

And I talk to them about the U.N. voting record. They still don't know what we're talking about. And that includes somebody whom I respect highly, Paul Kagame in Rwanda, for example.

But, you know, people look at you and say, "What are you talking about, U.N. voting record?"

And so I don't think it's a fair evaluation of our relationship with countries. But at the same hand, when we talk about, "Well, this is national security," or "This is building relationships," there should be some metrics on it.

And I am not putting this on food aid, either. I'm talking in the big picture of foreign aid, because it is true that it's enormously unpopular with constituents.

And everybody wants to balance the budget, cutting foreign aid, and we all know there's no money there, in terms of the $3.7 trillion budget.

But to me, this is a discussion that we should have as a society, in terms of you know, "What is the objective here? What is the metrics?"

I used to live in Ethiopia, and when I was there, the population was probably at 15 million people. Today it's 82 million people. And Ethiopia, as you know, in the last 50 years, they've been up, they've been down, they've had dictators, they've had communism, they've had it all.

But one of the NGO workers over there told me, when I was at an orphanage, as you do—and I like to get out there, and I always said I don't want to leave until I see the plate in the child's hand—but she said, "Well, this might be the only meal this child receives today."

Which I believe was true. But on the other hand, well how did Ethiopia, if they were so, you know, helpless, how did they get from 15 million to 80 million people?

You know, we seem to have this, I'd say it's a celebrity fixation of: Oh, if not for us, these poor countries would never get by.

And I don't think that necessarily true. I think that's our assumption so often.

I'll also say another element to this is you do have China and other countries that are in Africa, that we absolutely have to have this presence there.

I'm a hundred percent for total engagement. But I think we should also look at where we are achieving things and where we are not achieving things, or what is it that we're achieving, and how are measuring, and so forth.

But I know of your trip there last year. I think it was a great trip. And again, very, very high marks from me to all the USDA employees I've met, not just in Africa, but all over the world. They are really, where they need to be. They are on the ground with the people, making a difference.

Secretary VILSACK. Thank you.
Mr. KINGSTON. Ms. Kaptur. Sorry.
Ms. KAPTUR. Thank you, Mr. Chairman. Thank you for an extra round of questioning.

THE EMERGENCY FOOD ASSISTANCE PROGRAM

I wanted to ask, on the infrastructure program for TEFAP, that the continuing resolution cut $6 million from: Could any of you clarify for me what does that mean in terms of the ability to deliver food at the local level?

And also, have you considered ever using USDA's authority to help your CSFP distribution sites, and food banks that receive TEFAP, procure fuel at a more competitive price, and bid on vehicles that they use, which are dilapidated and old, and they're not green—that's for sure—to somehow at their national meetings gather them, and figure out a way to use the meager dollars they have more efficiently?

Secretary VILSACK. That's a very good idea. And I don't know that we have necessarily encouraged that kind of thought process. But that is something that we'll certainly take back and encourage.

When I think of the infrastructure, I most often think of refrigeration in the capacity that will adequately store foods. And I think that's where a lot of our dollars have gone.

And you know, the reality is, if we didn't have to do this, we probably wouldn't. But the reality is—We've got to make choices. And what we've tried to do in this budget—and everyone will have a problem with it, and everyone will have a problem with any budget that gets passed—when you're dealing with shared sacrifice and shared opportunity, it really is tough to get the priorities right.

We did our best effort here to try to balance those priorities. But when you, something's got to give. And that, unfortunately, is one area, where we felt we could give a little in the short term to try to get ourselves back on track.

Ms. KAPTUR. Thank you, Mr. Secretary.

You might also interview the places that distribute these commodities on their energy bills, and see if there is a way that some of the energy systems that Secretary Chu is looking at, and some of the programs that Secretary Solis has, for green energy installation couldn't help some of these places reduce their overhead long-term, because they do pay significant bills at the local level.

Again, I have this question of, you know, can bulk whenever, bulk purchase of something save money? Whether it's windows, you know, so they're not leaking heat all the time. You know, how do we more efficiently handle all of these sites?

We've asked the military to do that. Well, I don't go to all the meetings when these folks come into town, and have their national meetings. But I think it's something at least to push the envelope on, as you move forward.

And thank you for your receptivity there.

MONETIZATION OF COMMODITIES

Could you also answer for me, does USDA do any more monetization of commodities under the old Title II, I think it was, you know, where our bulk commodities were sent to countries, sold, and if it didn't disrupt their internals, use those monies for development? Is that sort of out the window?

Secretary VILSACK. It is fairly limited, I think. It's very limited.

Ms. KAPTUR. If you could provide some insight on that, because we have had surpluses recently. So at least that's my impression.

Secretary VILSACK. Surpluses of.

Ms. KAPTUR. Of commodities in this country.

Secretary VILSACK. Actually supplies in most cases are very tight right now.

Ms. KAPTUR. Very tight?

Secretary VILSACK. Yeah. That's why the prices are high.

Ms. KAPTUR. Okay. Any insight you could provide on that program would be greatly appreciated.

[The information from USDA follows:]

The Title I and Title II programs under the Food for Peace Act, and the Food for Progress program provide commodities to private voluntary organizations, international organizations, or foreign governments. Most commodities provided under the Food for Progress program are bulk commodities and are monetized. The Title II program also provides commodities to be monetized, primarily in non-emergency development programs, but most Title II program resources are used for emergency, direct feeding programs. Monetized sales proceeds support agricultural development, health, and other development activities. The Title I program of the Food for Peace Act is not active.

TRADE AGREEMENTS

And then finally, I want to say with the Chairman, I'm very impressed that he has talked about the impact of U.S. programs abroad and what it does to local people. Our food programs globally actually, though they are responsible for over half of what's donated, in one way or another, sort of pale in comparison to many of the free trade agreements that we sign.

So for example, with Mexico, which continues to vex me, the NAFTA agreement in 1993 has provided a total of over a trillion dollars of trade deficit with the nation of Mexico; but one of the most hidden parts of that agreement that has hurt so greatly on our continent, are over two million farmers in Mexico, who lost their land, and they lost their livelihood. They were living in the Ajito System. It was totally disrupted, as our production was 18 times more efficient more than Mexico's.

And so the shipment of yellow corn down there wipes out tens of thousands of farmers, who grew white corn. And I think if there is a judgment day, I think America will be judged very harshly for what was done there, and continues until today with the illegal immigration we suffer as a result of desperate people, seeking desperate means, just to survive.

All the small businesses that were wiped out. That was the most heartless agreement. And it might have benefitted a few companies that export, but the harm it did. And all you have to do is read the headlines about drug trade now. What are people resorting to? Desperation.

And it is imbedded in that NAFTA agreement, and we refuse to go back and look at it. And it's hurting people every day.

And I can tell you there are people that I have personally met, who have been killed in Mexico, because they tried to deal with the labor trafficking issue, which is an ugly underbelly of this agreement. People are trying to survive and being bootlegged, really, across the continent.

We keep closing our eyes to that.

I hope the Chairman might help this subcommittee be a place where eyes are opened as to what is really going on down there. I wish their government cared about their people. Obviously, they don't.

But it seems to me we have a responsibility, because we're a partner to that agreement.

So I thank you very much for being interested in the impacted programs globally, and would encourage you to include some of these free trade agreements, and take a close look at them.

Mr. KINGSTON. I thank the gentlewoman.

And that concludes our hearing. And I don't know about you, Mr. Secretary, but all this talk about food has made me hungry.

Thank you very much for being with us.

Secretary VILSACK. Thank you.

Mr. KINGSTON. We are adjourned.

UNITED STATES DEPARTMENT OF AGRICULTURE
SECRETARY OF AGRICULTURE
QUESTIONS FOR THE RECORD
HOUSE AGRICULTURE APPROPRIATIONS SUBCOMMITTEE HEARING
MARCH 1, 2011

QUESTIONS SUBMITTED BY CHAIRMAN KINGSTON

U.S. FOREST PRODUCTS

Mr. Kingston: Last August, I wrote to Secretary Vilsack about the US Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system. Like many of my colleagues, I believe it discriminates against American wood products. What changes has USDA made to address this bias against American wood products?

Response: The Department of Agriculture's (USDA) Forest Service is promoting the use of domestically grown wood and is working with industry, government, and academic representatives in the Green Opportunity task group formed from the USDA Forest Products Lab Coalition for Advanced Wood Structures. The Forest Service is working with the aforementioned representatives to build a stronger competitive position that better leverages green building opportunities for the wood industry.

In light of the concerns around the use of wood that you and others have raised, I am working to find ways to modify Departmental policy and direction concerning LEED, and to improve recognition of the lifecycle contributions presented by a U.S. sustainable wood building and forest products industry. My goal is to increase the use of sustainably grown, domestically produced wood products, including wood from the National Forests.

Mr. Kingston: The U.S. wood products industry and small forest landowners are an integral part of many rural and regional economies. Please tell me what other things USDA is doing to promote American wood products and encourage their use as a building material and in other products.

Response: I am committed to encouraging sustainable building construction and performance throughout the Nation. My goal is to facilitate sustainable buildings that incorporate sustainable wood products. To this end, the Department of Agriculture's (USDA) Forest Service is promoting the use of domestically grown wood and is working with industry, government, and academic representatives in the Green Opportunity task group formed from the USDA Forest Products Lab Coalition for Advanced Wood Structures.

As part of an overall strategy to reduce the environmental impact and improve the sustainability of our buildings, USDA recommended in the December 31, 2009 USDA Sustainable Buildings Implementation Plan that USDA agencies "use LEED [U.S. Green Building Council Leadership in Energy and Environmental Design], another third party certification process, as a USDA-wide design and construction, and leasing standard, for all new construction and leasing actions." In doing so, USDA is following Presidential Executive Order 13514: Federal Leadership in Environmental, Energy, and Economic Performance.

However, as mentioned above, LEED alone will not get us far enough in the pursuit of sustainable wood construction that supports forest landowners and the use of the United States forest and wood products. I am working to find ways to modify Departmental policy and direction concerning LEED, and to improve recognition of the lifecycle contributions presented by a U.S. sustainable wood building and forest products industry. My goal is to increase the use of sustainably grown, domestically produced wood products, including wood from the National Forests.

NATIONAL INSTITUTE OF FOOD AND AGRICULTURE RESEARCH

Mr. Kingston: USDA's National Institute of Food and Agriculture has six priority areas for its primary competitive grant program: 1) plant health and production and plant products; 2) animal health and production and animal products; 3) food safety, nutrition and health; 4) renewable energy, natural resources and environment; 5) agriculture systems and technology; and 6) agriculture economics and rural communities. Yet, many farm and nutrition groups insist that USDA isn't meeting their research needs. This is not solely a question of funding. What is USDA doing to ensure that it is meeting the research needs of the food and agriculture community?

Response: NIFA and USDA invest considerable time seeking and obtaining stakeholder input regarding the nation's agricultural research priorities. Input comes from formal listening sessions, conferences, outside organizations, and advisory groups such as the National Agricultural Research, Extension, Education, and Economics Advisory Board. Moreover, each request for applications that NIFA publishes requests feedback and comments on the program and its priorities. As a result of this input, constant adjustments are being made to our programs. While AFRI cannot address every need of every constituent, great care is taken to ensure that the Department's available resources are directed toward the nation's highest priorities. AFRI has five major focus areas: renewable energy, climate change, food safety, human nutrition and obesity, and world food security.

RISING FARMLAND PRICES

Mr. Kingston: Over the past six months, news outlets have reported on rising farmland prices. Many articles have speculated that there are a lot of similarities between today and the 1980s. The chairman of the Federal Deposit Insurance Corporation also has spoken on this. Is USDA, particularly the Farm Service Agency's farm loan program staff, prepared for this should it come true? Does USDA have any thoughts about the situation?

Response: The Farm Service Agency's (FSA) farm loan program staff continues to monitor the rising farmland values and commodity prices and their potential impact on the Agency's loan portfolio. While there are certainly similarities between current conditions and those experienced in the 1980's, the Agency does not face the same level of credit risk. FSA strengthened its credit standards in response to the farm crisis of the 1980's. In addition, FSA loan officials use conservative price estimates when developing cash flow projections and land values are determined by outside, professional appraisers. Additionally, in 2004, FSA implemented a state-of-the-art credit analysis system. This system provides robust analytical capabilities, such as stress testing, that allow FSA to proactively manage the loan portfolio. Furthermore, it should be noted that, in general, farmers are much less highly leveraged today than they were in the 1980's and, therefore, more able to weather a downturn in the agricultural markets. In fact, in February 2011, Thomas Hoening, President of the Federal Reserve Bank of Kansas City testified before the Senate Agriculture Committee, noting that "farm leverage ratios are at historic lows."

RENEWABLE ENERGY

Mr. Kingston: Last fall, USDA made an announcement to allow the Rural Energy for America Program (REAP) to be used to build infrastructure - pumps at gas stations - to support the ethanol industry. Yet, REAP was created to provide competitive grants to agricultural producers and rural small businesses to become more energy efficient and to use renewable energy technologies and resources. How does USDA justify this change? Please explain USDA's renewable energy strategy. There are six agencies within USDA funding similar projects. Why is there so much duplication?

Response: The Department continues to administer all Title IX programs to meet their intended purposes -- greater energy independence and security, an improved rural economy, and a healthier national environment. Higher blends of ethanol in the Nation's fuel supply lead directly to more jobs in rural areas, enhanced farm and forestry income, and significantly reduced greenhouse gas emissions.

Delivery of higher fuel blends to satisfy the Renewable Fuel Standard 2 (RFS2) mandates and meet the demands of millions of FlexFuel vehicles on the road today, and in the national fleet tomorrow, requires greater access to renewable fuels. Accordingly, the Department is exploring policy options to increase the number of delivery points and volume sold of these higher fuel blends to reduce our nation's dependence on foreign oil, to grow our rural economy, and improve our environment.

As you note, the Department's suite of energy programs have been allocated across several agencies. This approach allows the Department to take maximum advantage of the technical expertise that each agency possesses. In addition, I have created an Energy Council, comprised of myself and sub-cabinet members from the respective mission areas within the Department. The Energy Council promotes coordination and collaboration across the Department to ensure a comprehensive energy strategy is in place. In addition, I have created an Energy Council Coordination Committee (ECCC) with the responsibility for the day-to-day coordination of all energy programs and related activities among USDA mission areas and agencies. ECCC members are appointed by the respective Energy Council members. The ECCC meets on a weekly basis to ensure USDA energy programs and related activities are being coordinated. One of the responsibilities of the ECCC is to assure there is no duplication of funding within the various USDA mission areas and that USDA programs/activities complement one another.

In the 21st century, America faces challenges to increase energy security, protect our environment, and create jobs to boost our economy. The Department is working every day in every way to encourage and support the development, production, and delivery of clean, renewable, domestically produced energy in rural America. Our efforts cover the entire renewable energy supply chain: research and development activities; financial assistance to agriculture and forest producers for raising and harvesting energy crops; financing biorefineries that will produce renewable sources of fuel and power; and providing technical and financial assistance to agricultural producers and rural small businesses to assist them in becoming more energy efficient.

PIGFORD II/WIC UNOBLIGATED BALANCES

Mr. Kingston: Congress passed the Claims Resolution Act of 2010 to fund the settlements costs due to African American and Native American farmers and ranchers. I would like to focus on the $562 million rescission offered up by USDA to help offset the costs of the settlement. First, why did USDA offer up funding from the Women, Infant and Children Nutrition program? Secondly, did USDA notify the Appropriations Committee of this action before or after it proceeded? If so, please provide a copy of that notification for the record.

Response: As a routine practice, the Department provides information on unobligated balances to Congress when requested. No specific offer was provided regarding funding from the Special Supplemental Nutrition Program for Women, Infants and Children program for the Pigford settlement costs.

CLERK'S NOTE: The [illegible]

SINGLE FOOD SAFETY AGENCY

Mr. Kingston: At this time we are in great need of increased efficiency within the government. Is it time for a single food safety agency? Please provide details on where USDA conducts similar activities as those in sister Agencies both inside and outside of the Department.

CLERK'S NOTE:

The response provided by the USDA does not address the question posed by the Chairman. The Chairman asked why WIC funding was offered up as an offset and the USDA did not respond. The Chairman asked if the USDA notified the Committee before the USDA proceeded and the USDA did not respond to the question.

Response: The Administration is committed to deficit reduction, and I am confident we can work together on fiscal responsibility without compromising the safety of our nation's food supply.

Since 2009, Health and Human Services Secretary Kathleen Sebelius and I have been co-chairing the President's Food Safety Working Group to improve coordination on food safety efforts throughout the government. Whether or not we need a single agency, we do need to function as one food safety system, and that is why the Food Safety Working Group is working toward a new, public health-focused approach to food safety based on three core principles: prioritizing prevention; strengthening surveillance and enforcement; and improving response and recovery.

In addition to establishments that produce meat, poultry, and processed egg products under FSIS' sole jurisdiction, FSIS inspection program personnel perform inspection, verification, and enforcement activities in establishments that operate under the jurisdiction of both FSIS and the Food and Drug Administration (FDA), known as dual jurisdiction establishments (DJEs). For example, a DJE might produce and ship both a spaghetti sauce with meat (under FSIS jurisdiction) and a spaghetti sauce without meat (under FDA jurisdiction). In an effort to increase cooperation among Federal agencies responsible for food safety, FDA and FSIS entered into a Memorandum of Understanding (MOU) in 1998 regarding the sharing of information in a DJE. Under the MOU, FSIS and FDA communicate about findings of hazardous, contaminated, or mislabeled foods and about processes that may result in contamination, recalls, or evidence of tampering in DJEs. We continue to work together to ensure that each Agency's resources and experience is used efficiently, and duplication of inspection effort is avoided.

US SCHOOLS CHALLENGE/LET'S MOVE INITIATIVES

Mr. Kingston: Can you explain the goals and the expected outcome of USDA's U.S. Schools Challenge, including the First Lady's Let's Move! Initiative? How much is in the budget for each of these initiatives? How much is being spent in fiscal year 2011?

Response: The overarching goal of USDA's HealthierUS School Challenge (HUSSC) is to improve the health of the Nation's children by promoting healthier school environments. To help meet the goal, USDA recognizes schools that have made changes to improve the quality of the foods served, provide opportunities for physical activity, and provide nutrition education and physical education for students. Four levels of superior performance are awarded. Schools achieving HUSSC status are awarded a recognition certificate and banner and a monetary incentive of $500 for Bronze, $1000 for Silver, $1500 for Gold and $2000 for Gold of Distinction. In February 2010, the First Lady committed USDA to meet a goal of 1250 HUSSC schools by June 2011 and 1000 additional schools for each of the following two years. USDA's FY 2011 funding, under the Continuing Resolution, remains at the FY 2010 level, $699,000. The FY 2012 President's Budget requests an $801,000 increase for a total of $1.5 million for USDA to support this important initiative to improve the health of our children. All of USDA's existing Child Nutrition Programs support the First Lady's initiative. The HUSSC is just one of the key components of the First Lady's Let's Move! Initiative to raise a healthier generation of children.

UNAUTHORIZED PROGRAMS

Mr. Kingston: How many programs are requested in the budget for which an authorization for the program does not exist? Which ones? How many requests are there in the budget that exceeds the authorized amount for the program? Which ones?

USDA UNAUTHORIZED APPROPRIATIONS

Agency/program	Last year of authorization	Authorization level in last year	Appropriations in last year of authorization	Appropriations in 2011	Auth committee	Notes
Rural Housing Service:						
Multi-family Housing Revitalization Program	9/30/2011	$29,940,000	$29,940,000	$29,940,000	Housing /Finance	Original authorization was for a voucher program that ended in 1994. No appropriations were provided between 1995-2005. Total appropriation of $29,940,000 includes funding for the voucher program as well as for demonstration revitalization projects, which have not been permanently authorized.
Rural Utilities Service:						
Broadband Telecommunications Grants	9/30/2011	$13,379,000	$13,379,000	$13,379,000	Agriculture	Program has not been permanently authorized.

Agency/program	Last year of authorization	Authorization level in last year	Appropriations in last year of authorization	Appropriations in 2011	Auth committee	Notes
Rural Business-Cooperative Service:						
Rural Energy for America Program	2012	$25,000,000	N/A	$4,990,000	Agriculture	The 2012 budget request of $36,788,000 exceeds the authorized level.
Healthy Food Financing Initiative	N/A	N/A	N/A	$0	Agriculture	New program in 2012.
Animal and Plant Health Inspection Service:						
Horse Protection Act	Thereafter	$500,000	N/A	$499,000	Agriculture	The 2012 budget request of $891,000 exceeds the authorized level.
Food and Nutrition Service:						
WIC Management Information Systems	2015	N/A	N/A	$35,000,000	Education/Labor	The 2012 budget request of $60,000,000 exceeds the authorized level.

Response: For all practical purposes, there are no programs requested in the budget for which an authorization for the program does not exist or exceed the authorized amount for the program.

FOOD LABELING INITIATIVE

Mr. Kingston: In December 2009, USDA, the Food and Drug Administration, the Centers for Disease Control and Prevention, and the Federal Trade Commission released guidelines for food advertising to children and teens. The guidelines applied nutrition criteria to advertising. If the food industry applied the December 2009 guidelines, it anticipates that spaghetti and meatballs, a peanut butter and jelly sandwich, most soups, most salad dressings, yogurt, most breakfast cereals, including Cheerios, would be banned from thousands of televisions shows. What actions has USDA taken regarding these guidelines since 2009? What is the status of these guidelines? What actions do USDA and its partner agencies in this effort anticipate taking in the future regarding the advertising of food products to children and teens?

Response: The 2009 Omnibus Appropriations Act included a provision calling for FTC to establish an Interagency Working Group on Food Marketing to Children, made up of members from FDA, CDC, USDA, and FTC. The charge to the FTC-led Working Group, which officially convened in May 2009, was to conduct a study and develop recommendations for voluntary standards for the marketing of food targeted to children ages 17 years old or younger. In light of the increasing trends for childhood obesity, the Working Group was directed to consider positive and negative contributions of nutrients, ingredients, and food, including calories, portion size, saturated fat, trans fat, sodium, added sugars, and the presence of nutrients, fruits, vegetables, and whole grains, to the diets of children. The scope of the media to which such recommendations apply also had to be determined. The guidance provided to the Working Group was to complete its work and deliver by July 2010 a report containing its findings and recommendations. Further guidance was to ensure public input on the proposed recommendations for the voluntary standards.

Over the past 20 months, the FTC-led Working Group has actively met regularly to assess the science, examine the components of voluntary efforts employed by various organizations already, and thought through scenarios related to individual foods and foods marketed as meals. FTC held a public meeting to gather input on initial thinking of the Working Group in December 2009. Based on input from that meeting, the Working Group continued to define nutritional principles and criteria to meet the charge. Delays were encountered with the need to perform complex food modeling exercises to test the effects of potential criteria on foods currently marketed to children younger than 17, as well as work through approaches for marketing individual foods and multi-component meals. Such analyses helped assure that there was a common-sense approach to allowing healthier versions of foods, e.g., no-salt peanut butter and low fat yogurt, to be advertised.

The FTC-led Working Group is nearing completion of a set of recommendations for proposed voluntary nutrition principles to guide industry self-regulatory efforts to improve the nutritional profile of foods that are most heavily marketed to children. The recommendations include nutrition principles and nutrient criteria for deciding what foods are eligible for marketing, as well as proposed definitions of marketing activities targeting children and adolescents to which the nutrition principles would apply. Under FTC's lead, the recommendations will be made public later in spring 2011 for comment on the criteria and the impact that they are likely to have on children's food marketing and their diets if fully implemented. The Working Group will consider the input in developing it final recommendations to Congress.

FREE TRADE AGREEMENTS WITH SOUTH KOREA, PANAMA AND COLUMBIA

Mr. Kingston: Congress is expected to consider free trade agreements (FTAs) signed by the Bush Administration with South Korea, Panama, and Colombia. If and when submitted, these trade agreements will be debated under trade promotion authority, or fast-track rules, designed to expedite congressional consideration.

The U.S.-South Korea FTA would be the most commercially significant for U.S. agriculture since the NAFTA took effect with Mexico in 1994. Because Colombia, one of the largest markets in South America, imposes a high level of border protection on agricultural imports, the Colombia FTA has the potential to noticeably increase U.S. agricultural exports. Though Panama is a relatively small market, U.S. exporters would have opportunities to make additional sales.

We've all heard the statistics on what passage of free trade agreements (FTA) with South Korea, Colombia, and Panama could mean for American agricultural exports, potentially pushing an additional $3 billion into the US economy. How are American farmers and producers negatively impacted by the inability to move these agreements? What is USDA doing to change that?

Response: The Department of Agriculture has always been and continues to be a strong supporter of the signed U.S. trade agreements with South Korea, Panama, and Colombia, as all three will deliver meaningful benefits to U.S. agriculture. USDA took a very active role in finding an acceptable solution for the Korea agreement resulting in a positive announcement by President Obama in December 2010. Even though the issues that are currently standing in the way of Congressional approval of the Colombia and Panama agreements are not related to agriculture, the Department has continued to be a strong advocate for approval of both agreements.

South Korea, Colombia, and Panama have all finalized free trade agreements (FTAs) with important competitors of the United States. With Korea poised to implement its trade agreement with the European Union this coming July, absent the approval and implementation of the U.S.-Korea agreement, we can expect to see an erosion in our market share, which stood at 30 percent in 2010, negatively affecting a wide range of agricultural products as the Europeans gain preferential access. In the case of Colombia, this is already happening. From 2006-2008, the United States held a market share in Colombia of 45 percent. However, after Colombia implemented the Colombia-MERCOSOR trade agreement in 2009, providing the key competitors of Argentina and Brazil with preferential access over the United States, the U.S. market share fell to 28 percent in 2009, and further declined to 21 percent in 2010. In fact, Argentina is now Colombia's largest supplier of agricultural products with a 28 percent market share in 2010. The growth of Argentina's market share has come directly at the expense of the United States in head-to-head competition in key commodities - corn, soybean meal, and soybeans.

TARIFFS ON AMERICAN PRODUCTS

Mr. Kingston: Not only are we losing out on the opportunity to increase agricultural exports by opening these markets, American farmers are losing market share due to competing countries' more aggressive trade agendas. Canada is an example. The duty on frozen potatoes goes to zero upon implementation of Canada's FTA with Panama on July 1 of this year. American exporters will continue to pay the 20 percent tariff. This leaves American farmers and processors with two choices: eat the tariff in order to not lose their Panamanian customers, or lose market share. Once a market is lost, it becomes extremely difficult to get it back. Pork, poultry, dairy and beef producers, among others, all stand to gain if and when the FTA with Panama gets done. What is USDA's position on this situation and how can it be remedied?

Response: The Department of Agriculture is a strong supporter of the U.S.-Panama Trade Promotion Agreement (PTPA). Implementation of the PTPA will make duty-free trade a two-way street, and is another key building block in the U.S. strategy to advance free trade within the Western Hemisphere. Currently, Panama's average agricultural tariff rate is 15 percent, but many key U.S. export products face much higher rates. Tariffs on meat can be as high as 70 percent, grain tariffs as high as 90 percent, and Panama's tariff on chicken leg quarters is 260 percent. In contrast, more than 99 percent of Panamanian exports to the United States enter duty free under the Caribbean Basin Initiative (CBI) that was passed by Congress in 1983. USDA does not want to see any U.S. agricultural exports suffer due to preferential tariffs afforded to our competitors and will actively work with Panama to address this issue.

AGRICULTURAL TRADE/EXPORTS

Mr. Kingston: Agricultural exports appear to be one bright spot in the U.S. economy. On a calendar year basis, the value of U.S. exports in 2010 hit a new record. Secretary Vilsack announced two weeks ago that U.S. agriculture exports are expected to grow by 25 percent in value and 10 percent in volume during this current fiscal year. This will be quite impressive if all turns out as predicted.

The President announced a new initiative called the National Export Initiative last year. So even without the full implementation of President Obama's Initiative, we are on a record pace. We will certainly evaluate the proposed increase for the National Export Initiative of $20 million, but how does the Administration think it can double U.S. agricultural exports by the end of 2014?

Response: As the lead agency for trade matters in USDA, FAS will work with and through U.S. farm groups, State departments of agriculture and State regional trade groups (SRTGs), agricultural and industry organizations, and other USDA agencies to draw on all available expertise to maximize the positive impacts of the National Export Initiative (NEI) to support the doubling of exports by 2014.

There is a unique partnership between FAS and U.S. agricultural trade through non-profit organizations called foreign market development cooperators. This partnership is perhaps one of the most successful public/private partnerships in the U.S. government. For almost 60 years, this relationship has facilitated billions of dollars worth of agricultural exports and created thousands of jobs. Cooperators and FAS jointly fund activities to increase the demand for U.S. agricultural exports by targeting consumers, processors, distributors and importers. Cooperators work very closely with FAS' Agricultural Trade Offices in many countries around the world. This partnership is instrumental in continuing to develop new markets and the maintenance of developed markets. For example, FAS and U.S. cooperators have been extremely active in China for the last 20 years. China recently became our most important agricultural export market, with sales valued at over $20 billion in 2010. In fact, U.S. agricultural exports to China have more than doubled in just 3 years.

Ninety-five percent of all U.S. agricultural trade (exports and imports) are among World Trade Organization (WTO) members and fall under the obligations of WTO agreements or FTAs. These agreements cover issues such as labeling, licensing, import duties, sanitary and phytosanitary (SPS) requirements, rules of origin, and tariff-rate quota administration. In unveiling the NEI, the Administration specially targeted enforcement of trade agreements as a necessary step to reaching the goal of doubling U.S. exports and supporting two million jobs. USDA's compliance program focuses on various approaches; technical interventions involving information exchange between U.S. and foreign regulatory agencies; technical assistance through targeted capacity building programs; diplomatic or political interventions; and formal, multilateral intervention through WTO committees, highlighting compliance issues. Using these tools, USDA officials will focus enforcement efforts in key countries such as Canada, Mexico, Japan, China, the European Union, Indonesia and South Korea, taking full advantage of the WTO SPS Agreement and the Technical Barriers to Trade Agreement, as well as U.S. FTAs.

TRADE WITH CHINA

Mr. Kingston: If we think exports will double by the end of 2014, USDA has to make sure there is a fair and balanced approach in these foreign trade relationships. One example is with our beef and poultry trade with China. When it comes to the importation of Chinese poultry into the U.S. and other foreign interests such as catfish, USDA is bending over backwards to move things along. However, the Chinese are not giving the same level of effort for U.S. beef exports. How long is the Administration going to put up with the Government of China's delay in allowing U.S. beef exports?

Response: China is a key market for U.S. exports. Those exports are generating jobs in every corner of the United States and across every major sector. It is for this reason that USDA will continue a dialogue with our Chinese counterparts. Our goal has been and will continue to be securing greater access to this growing market for beef, as well as other agricultural products.

USDA and U. S. Trade Representative (USTR) officials met several times in 2010 with counterparts in China to resume U.S. beef access negotiations. These efforts culminated in a delegation to Beijing in January 2011 led by USTR's Chief Agricultural Negotiator and USDA's Farm and Foreign Agricultural Services Under Secretary and including technical experts from APHIS, Food and Drug Administration, FSIS, and FAS. While an agreement has not yet been achieved, the January meetings were important in establishing clarity on conditions needed by both countries for trade to resume, after a stall in negotiations dating back to 2007. It is USDA and USTR's intention to build on these extensive discussions with China throughout 2011 in efforts to resolve this longstanding trade issue.

INDIA

Mr. Kingston: Secretary Vilsack traveled with President Obama to India this past November. India has a population of about 1.2 billion people and accounts for roughly 18 percent of the world's population. India does not even make the top fifteen recipients of U.S. agricultural exports. Why hasn't USDA done more to ensure the sale of greater amounts of U.S. agricultural products to India?

Response: We have been aggressively pursuing market access in India for U.S. products such as dairy, poultry, pork, pet food, and barley. Over the last 2 years, we have had numerous technical and high-level political discussions with our Indian counterparts, including during the President's visit. And while progress on many key issues has been painfully slow, U.S. agricultural exports to India are growing. In 2010, our exports increased almost 10 percent over the prior year, reaching $773 million. This follows an increase of 40 percent in 2009. We are seeing record sales in U.S. almonds, apples, and soybean oil to India. In addition, we are actively encouraging many new-to-market products such as pecans, pistachios and cherries through USDA-endorsed trade shows and the Emerging Markets Program. We are also very pleased to report that the Indian government recently reduced import tariffs on pistachios, cranberries, and raisins; an action that we have sought for some time and that will help our bilateral trade balance.

FOOD, NUTRITION AND CONSUMER SERVICES

Mr. Kingston: What are the expected participation levels for the Supplemental Nutrition Assistance Program (SNAP), Special Supplemental

Nutrition Program for Women, Infants, and Children (WIC), and Commodity Supplemental Food Program (CSFP) estimated for FY 2011 and FY 2012, and how does that compare to the FY 2010 participation? Provide detailed breakdown of WIC participation by women, infants, and children.

Response: The information is submitted for the record.

[The information follows:]

	Participation (000s)			Percentage Change from FY 2010	
Program	FY 2010	FY 2011	FY 2012	FY 2011	FY 2012
SNAP (per month)	40,302	45,005	44,981	11.7%	11.6%
CSFP	519	605	605	16.6%	16.6%
WIC (per month)	9,175	9,331	9,613	1.7%	4.8%
Women	2,138	2,175	2,240	1.7%	4.8%
Infants	2,174	2,211	2,278	1.7%	4.8%
Children	4,863	4,945	5,095	1.7%	4.8%

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

Mr. Kingston: What methodologies is the Department using to estimate WIC demand?

Response: There are primarily three elements that must be estimated in order to determine program need in WIC: participation, food costs, and the national average per participant grant (AGP) for costs of nutrition services and administration incurred by State and local agencies. To estimate participation growth from year to year, FNS first evaluates growth rates in recent years, and establishes a baseline for growth from the prior year to the current year, and then to the budget year. The baseline is typically based on a multi-year average of the actual growth in participation in recent years. FNS also looks at other periods when economic conditions were similar to the current environment (e.g., similar unemployment and economic growth), and evaluates the changes in participation that occurred during those periods. FNS uses that data to adjust the baseline growth rates as needed.

To estimate the food package costs, the various elements of the food package are weighted based on their relative contribution to the food package costs in order to inflate the food package costs from year to year. ERS provides estimates for food cost inflation from the prior year to the current year, and the Thrifty Food Plan is used to inflate food costs from the current year to the budget year.

Per section 17(h)(1)(B) of the Child Nutrition Act of 1066, the AGP is determined by inflating the amount of the AGP for the prior year using the State and Local Expenditure Index.

Other adjustments are made as needed, based on changes in the program, either through changes in the authorizing statute or other changes within current law.

SNAP

Mr. Kingston: How many people does USDA estimate are eligible for the SNAP, but are not participating? Specifically, how many or what percentage of senior participants enrolled in CSFP are eligible for Food Stamps but do not participate?

Response: The most recent study of SNAP eligibility and participation rates showed that in FY 2008, on average about 41 million people were eligible for SNAP nationwide and about 27 million participated for a participation rate of 67 percent. Therefore, about 14 million eligible people did not participate in SNAP in an average month.

While USDA does not have recent data on this particular issue, a 2008 study by the Urban Institute estimated that in 2003, about 48 percent of CSFP-eligible seniors (in CSFP states) were eligible for SNAP but not enrolled. The study did not determine what the rates of SNAP eligibility and participation were among CSFP enrollees, however.

Mr. Kingston: Provide specific examples of the initiatives that have been launched to help make sure that those who are eligible for food stamps know that they can participate. How much did USDA spend on these initiatives in fiscal year 2009 and 2010? What is the projected expenditure level in fiscal years 2011 and 2012? What work is being done with any other federal agency to educate the public on eligibility, specifically Health and Human Services?

Response: The Department of Agriculture is firmly committed to facilitating access to the Supplemental Nutrition Assistance Program (SNAP) to those who are eligible but not participating. Through its outreach efforts, the Food and Nutrition Service (FNS) works with State and local agencies, advocates, employers, neighborhood and faith-based organizations, and others to reach out to eligible low-income people who are not currently participating in SNAP and to share information about the nutrition benefits of SNAP. FNS engages in the following outreach efforts:

- ***National Media Campaign:*** The goals of the national media campaign are to position SNAP as a nutrition assistance program, help overcome stigma, teach potential applicants where and how to apply, and highlight FNS' commitment to ensure that all eligible people receive benefits with dignity and respect. In FY 2011, radio buys will air in 9 media markets with low SNAP participation.

- ***The USDA National Hunger Clearinghouse:*** The USDA National Hunger Clearinghouse collects and maintains contact and program information about Federal, State and local non-profit organizations and government agencies that provide food assistance programs and other social services. Individuals can search the online database or call a toll-free hotline to find assistance in their community. The hotline receives approximately 900 calls per month and is promoted by FNS community partners throughout the country.

- ***Hunger-Free Community Grants:*** Agriculture Secretary Tom Vilsack announced a series of new initiatives in February 2011 aimed at helping communities increase food access by promoting coordination and partnerships between public, private and non-profit partners. USDA will invest $4.98 million in grants from FY2010 funds to support 14 communities in eight states to end hunger and improve the nutrition of low-income Americans.

- ***Toll Free Information Line:*** FNS continues to provide a toll free information line in English and Spanish for low-income people to learn more about SNAP including how to apply. Callers can listen to recorded information, obtain referrals to their States for more direct help and information, and request a packet of information by leaving a mailing address with an operator. During FY 2010, 61,722 packets of information were distributed to toll-free number callers.

- ***Pre-screening Tool***: English and Spanish versions of the online pre-screening tool tell users if they might be eligible for benefits and estimates the amount of benefits they might receive. Where available, the site links the user to a State's pre-screening tool, which can incorporate State-specific policies. The FNS tool also links users to http://www.GovBenefits.gov to find out if they might be eligible for other benefit programs.

- ***Toolkits:*** Outreach toolkits provide ideas and resource materials to help State and local partners implement effective localized outreach campaigns that reinforce national messages. In FY 2010, six new chapters were developed for the outreach toolkits. The new chapters provided guidance on the evaluation of projects, utilizing trusted community messengers in outreach efforts, introduction to social media, outreach to senior populations, and a guide on how to develop local SNAP materials and a Spanish language glossary.

- ***Outreach Materials***: FNS continued to distribute English and Spanish educational and outreach materials, such as brochures, posters and flyers, at no cost to State and local agencies and other organizations. In FY 2010, approximately 561,000 items were shipped each month. In addition, FNS assessed the need for and initiated development of additional products to increase nutrition program participation among low-income Hispanic and older American populations, the homeless, and individuals newly impacted by the current economy. Several updated and new publications, including the *How to Get Food Help: A Guide to FNS Programs, SNAP Myths, and a SNAP Guide for Seniors* will be available to download and order on the FNS website at no cost.

- ***Access Reviews***: FNS conducts program access reviews of local SNAP offices each fiscal year to provide oversight of State Agency operations of the Program to ensure compliance with national standards, minimize barriers to participation, identify best practices or ways to improve customer service and provide technical assistance to States.

- ***Outreach Coalition***: FNS continued to manage and support an Outreach Coalition comprised of community leaders, community action agencies, hunger advocacy organizations, faith-based groups, individuals, food banks, university extension programs, and other groups or individuals interested in giving potentially eligible non-participants the tools to make an informed decisions about applying for nutrition assistance. In FY 2010, membership in the Outreach Coalition experienced a significant increase due to concerns about eliminating hunger within the nation's communities. The Coalition participated in webinars on increasing participation in the Summer Food Service Program and SNAP Outreach in Your Community. In addition, the Hunger Champion Award and Golden Grocer Award programs were revived to honor local offices and retailers who provided exemplary outreach in their communities.

- ***State Outreach Plans:*** States have the option of providing outreach as part of their program operations, and FNS reimburses up to 50 percent of the allowable administrative costs for these activities. At the end of FY 2010, 38 States had approved outreach plans and an additional eight States also performed outreach activities.

- **Program Participation Grants**: The 2008 Farm Bill authorizes up to $5 million in grants each year, Participation grants have been awarded each year since fiscal year 2003. The grants are targeted to State agencies, public health or educational entities, or private nonprofit entities such as community-based or faith-based organizations, food banks, or other emergency feeding organizations. The goal of the program participation grants is to encourage participation by eliminating barriers caused by the complexity of application and certification procedures. This year's grants focused on supporting partnerships between SNAP and private non-profit organizations and on applying process improvement processes to States' operational systems.

Since fiscal year 2001, $10 million per year has been made available through the budget to FNS for the purpose of conducting national efforts to share messages about the nutrition benefits of SNAP. This charge specifically includes outreach projects targeted to non-participating eligible low income people and nutrition education projects to reinforce healthy eating messages among low income people eligible for or already participating in the Program.

In fiscal year 2010, FNS committed $1.5 million each year to national nutrition education efforts leaving $8.5 million for access, outreach and public education. Initiatives using the $8.5 million in annual funding for outreach, access, and public education are designed to facilitate, complement, and supplement State and local efforts. FNS expects to continue these efforts in fiscal years 2011 and 2012.

States devote considerable administrative funding resources to outreach, access and nutrition education. The Federal government reimburses half of these State administrative costs since they are routine administrative expenses of the program. As noted above, at the end of FY 2010, 38 States had approved outreach plans and an additional eight States also performed outreach activities.

FNS is committed to educating the public on SNAP eligibility by improving communication and collaboration efforts with other Federal agencies and departments. FNS is collaborating with Health and Human Services (HHS), on a number of initiatives:

- **Affordable Care Act (ACA)**: FNS and the Centers for Medicaid and Medicare Services are working in collaboration with States on a model joint application for these key programs with a future goal of using it as a basis for a joint online application. FNS coordinated a teleconference for State SNAP officials on changes in Medicaid and the role of the State Exchanges. As ACA implementation moves forward, FNS will consider how Medicaid policies align with SNAP and look for opportunities for coordination. There are an estimated 4 million SNAP recipients who are not now on Medicaid who will become eligible for Medicaid in 2014. FNS participates in the Health Information Technology workgroup sponsored by HHS. This workgroup focuses on how to facilitate the process of enrolling in Federal and State health and human service programs.

- **Children's Health Insurance Program (CHIP) eligibility**: State agencies can automatically enroll eligible children in CHIP based on information in SNAP case files. This is particularly successful in States where different agencies administer SNAP and CHIP.

- **Medicare's Extra Help:** FNS awarded grants to three States to help boost SNAP participation among Medicare's Extra Help population. Such programs expand access to more people who may not realize they are eligible for SNAP benefits.

- **Healthy Food Financing Initiative**: USDA is working with HHS and Treasury on this $400 million partnership to bring grocery and other healthy food retailers to underserved urban and rural areas. The initiative would reach nearly 24 million Americans who live in food deserts.

- **Administration on Aging (AoA):** FNS and the AoA's National Council on Aging (NCOA) are developing a pilot project in Pennsylvania to use SNAP pre-screening and Medicare Part D/Extra Help application data to enroll participants in SNAP. In addition, FNS is working to integrate SNAP outreach into local Area Agencies on Aging (AAA) and Aging and Disability Resource Centers (ADRCs) across the country.

- **Office of Refugee Resettlement (ORR):** In FY 2011, FNS presented SNAP access eligibility information to HHS grantees at the Annual Refugee Agriculture Partnership Program and at the National Consultation. Additionally, consultation and referrals on specific program access issues are provided throughout the year.

- **Prisoner Reentry:** FNS staff is participating in a workgroup lead by the Attorney General with the mission of coordinating across Federal agencies to better address the needs of individuals returning to their communities after prison. This is a wide ranging group that includes members from 16 other Federal agencies, including HHS.

ERROR RATES

Mr. Kingston: Tell the Committee what USDA is doing to reduce SNAP and WIC error rates and improper payments.

Response: As a State-managed Federal program, SNAP is administered at the local level by various State agencies. FNS has worked diligently with our State partners for more than 30 years to help them reduce error rates and improper payments in the Program. In 1981 the aggregate State error rate for the nation was 12.4 percent. By 1991 the error rate had dropped to 9.3 percent. In the ensuing years, the Program error rate has continued to decline. The 2009 error rate came in at 4.36 percent, which is the lowest error rate ever achieved. This has been accomplished during a period when participation numbers have constantly increased, and currently are at the highest levels in history.

FNS continues to work with our State partners to further reduce improper payments in the Program and to improve State error rates. The long term level of excellence has traditionally been considered to be 6 percent. This level has been exceeded and now lower targets have been established to encourage States to further improve payment accuracy. We continue to strive to improve by emphasizing the established need for balance between Program integrity and access.

Program regulations require State agencies to analyze data to develop corrective action plans to reduce or eliminate program deficiencies. A State with a high error rate must develop a Quality Control corrective action plan to address such deficiencies. A State with an excessive error rate will be required to invest a specific amount (depending on its error rate and size) designated specifically to correct and lower its error rate. The State will also face further fiscal penalties if it fails to lower its error rate in a future fiscal year.

Specific strategies designed to help States prevent erroneous payments include the following:

- FNS, through its regional offices, works directly with States to impart the importance of payment accuracy and correct payments to State leadership and to assist them in developing effective corrective action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as:
    - Analyzing data,
    - Reviewing and monitoring corrective action plans,
    - Developing strategies for error reduction and corrective action,
    - Participating on boards and in work groups, and
    - Hosting, attending and supporting payment accuracy conferences.

- FNS administers a State Exchange Program whereby funds are provided to States to facilitate travel to obtain, observe and share information on best practices and effective techniques for error reduction. Coalitions have been formed among states to promote partnerships, information exchange and collaborative efforts which address mutual concerns and support development of effective corrective action.

For the WIC Program, FNS plans to continue periodic examinations of certification and vendor error in Program, as described below.

- ***Certification Error:***

  The Child Nutrition Act was amended in 1998 to require income documentation for WIC Program applicants in all States. The Final WIC Policy Memorandum #99-4, *Strengthening Integrity in the WIC Certification Process,* February 24, 1999, the WIC Certification Integrity Interim Rule (65 FR 3375, January 21, 2000) and the WIC Certification Integrity Final Rule (65 FR 77245, December 11, 2000) implemented this requirement. The WIC Food Delivery Final Rule (65 FR 83248, December 29, 2000) mandated one-year disqualifications for the most serious participant violations, including dual participation and misrepresentation of income. The WIC Miscellaneous Final Rule (71 FR 56708, September 27, 2006) required State agencies to prevent conflicts of interest such as clinic staff certifying themselves, close friends, or relatives, and also required State agencies to maintain information on participant and employee fraud and abuse.

- ***Vendor Error:***

  The Child Nutrition Act was amended in 1996 to require the disqualification of WIC vendors who had been disqualified by the Food Stamp Program (FSP), and was amended in 1998 to require permanent disqualification of vendors who had been convicted of trafficking and illegal sales. The WIC/FSP Vendor Disqualification Final Rule (64 FR 13311, March 18, 1999) implemented these requirements and also mandated three-year disqualifications for overcharging and charging for food not received. The WIC Food Delivery Final Rule (65 FR 83248, December 29, 2000) mandated nationwide standards for vendor authorization, training, and monitoring.

FNS will annually estimate and report improper payments to vendors based on information on vendor investigations routinely conducted by the State WIC Agencies and reported to FNS.

INTENTIONAL PROGRAM VIOLATIONS

Mr. Kingston: When USDA confirms illegal or improper acts by recipients or providers in SNAP, WIC or any other nutritional program, please explain why or how these parties can continue to participate in these programs. Will the USDA consider debarring providers of nutrition assistance from these programs if found guilty of violating laws or regulations related to these programs?

Response: The Supplemental Nutrition Assistance Program (SNAP) has significant statutory enforcement authority that provides for both temporary and permanent disqualification of non-compliant authorized retailers; there is a reciprocal relationship between SNAP and WIC that results in penalties. However, the Food and Nutrition Service will work closely with the Inspector General, the Office of Management and Budget, and US Department of Agriculture personnel to satisfy the intent of the suspension and debarment initiative. We recognize the importance of sharing information on those vendors who violate program rules with other federal entities who may be considering doing business with these same vendors.

Our current legislative authority requires the Agency to conduct disqualification procedures for non-compliant retailers. This process is comprehensive and results in thousands of disqualifications each year as the Agency takes violations seriously. Nevertheless, FNS will begin preparation of a plan to implement the intent of the suspension and debarment process to share disqualified vendors in the Excluded Parties Listing System and provide access to vendor information for OMB's Do Not Pay list.

WIC

Mr. Kingston: Provide for the record the projected participation in the WIC program for fiscal year 2006 and actual for 2005 broken down by women, infants, and children.

Response: The information is submitted for the record.

[The information follows:]

FY	Women	Infants	Children	TOTAL
2005	1,966,249	2,047,118	4,009,248	8,022,615
2006	2,023,309	2,076,216	3,988,479	8,088,005
2007	2,093,271	2,165,568	4,026,410	8,285,249
2008	2,153,192	2,222,462	4,328,857	8,704,510
2009	2,182,395	2,224,241	4,715,144	9,121,779
2010	2,138,302	2,174,232	4,862,944	9,175,478
2011	2,174,545	2,211,085	4,945,370	9,331,000
2012	2,240,264	2,277,908	5,094,828	9,613,000

WIC EBT

Mr. Kingston: Please provide the Department's plan for transitioning additional WIC state programs to electronic benefits transfer (EBT). Provide the Committee with details on WIC's MIS spending from FY 2008 to FY 2010 and planned expenditures for FY 2011 and FY 2012. Lastly, provide the Committee with a detailed explanation as to how the Department is leveraging the SNAP infrastructure and the existing EBT state efforts that may be used by other states currently not a participant in EBT.

Response: The Department is aggressively working with State agencies, food retail vendors and the payments industry to implement WIC EBT nationwide by 2020. There are currently over 40 State agencies in various stages of WIC EBT implementation, including conducting planning activities, design and development, or have completed statewide EBT projects.

We are also working to upgrade State systems and institute technical standards that will facilitate cost effective transfer of the State-of-the-art management information systems (MIS) through the State Agency Model funding process. In addition, we have worked closely with the State agencies and industry to establish a set of WIC EBT Operating Rules and a Technical Implementation Guide that we expect all State agencies to adopt as they implement WIC EBT systems. These efforts greatly facilitate adoption of common EBT processes across multiple State agencies and establish common technical requirements that can enable adoption of WIC EBT capability in the retail and payments industries.

A funding summary is outlined below for each fiscal year. Funding for FY 2011 is year to date; the competitive process for applications is in process. For FY 2012, we have reflected the budget request. If these amounts are appropriated, it is expected that the full amounts will be utilized.

Fiscal Year 2008	Total	$9,081,714
WIC EBT		$3,890,207
WIC MIS		$5,191,507
Fiscal Year 2009	Total	$99,885,846
WIC EBT		$11,976,412
WIC MIS		$87,909,434
Fiscal Year 2010	Total	$30,201,843
WIC EBT		$21,716,913
WIC MIS		$6,887,018
WIC Technical Standardization		$1,597,912
Fiscal Year 2011	Year-to-Date	$29,798,157
Fiscal Year 2012	Planned	$60,000,000

Since 2002, the Department has initiated and funded several WIC projects that utilize the online EBT technology and infrastructure that is similar to the SNAP technology in use today. We have also sponsored development of technical standards working with the American National Standards Institute (ANSI) X9 financial payments standards committee. Technical standards are available for online WIC EBT and smart card EBT. Consequently, there are presently three online system alternatives available for WIC State agencies to choose from if they elect to use an online EBT technology. Statewide operations are now in use in the Michigan, Nevada and Chickasaw Nation. Kentucky will be statewide by November this year. Michigan and Nevada are contracting with the SNAP EBT provider and thus share some of the infrastructure such as the EBT equipment installed in retail vendor locations that are authorized to accept both WIC and SNAP benefits.

The Department is continuing to fund existing State initiatives with EBT and MIS projects that contribute to additional standardization, and build infrastructure that will also be used by future State agencies. In the State Agency Model initiative, we are requiring that these modern, state-of-the-art systems support a universal interface to the EBT systems. As a result, other State agencies that adopt these model systems will be able to implement EBT in less time and potentially reduced cost. With existing EBT States, we are funding updates to retail cash register systems that are used in multi-State retail chain stores as well as electronic cash registers marketed to food retailers of all sizes nationally.

Mr. Kingston: What types of savings can be achieved by full conversion to WIC EBT?

Response: We anticipate that some State agencies and WIC food retail vendors will see savings from the elimination of paper WIC checks or vouchers. These types of costs may include check stock, printers for local WIC clinics, bank processing charges and State or local agency staff who monitor the paper food instrument processes and manage exceptions. Because WIC State agency operations vary, the savings may not be incurred by all State agencies as these costs may be used to support the WIC EBT system delivery.

Food retail vendors, particularly those that redeem a large number of WIC food instruments, may also see reduced costs from elimination of paper checks or vouchers. These potential reductions include: charges for armored car services, rejected check fees; labor costs for staff needed to count and prepare paper food instruments for deposit to a bank or to be sent to the State agency for payment. Training for store personnel, managers and checkout clerks, may also be reduced because of the automation of the WIC food lists that comes with EBT implementation. This relieves the store staff from the need to know which items are eligible for WIC redemption since the Universal Product Code (UPC) for each food item must match with the State food list containing approved UPCs. There can be reduced time to process a WIC payment when the electronic cash register is updated with WIC EBT capability so that the store checkout clerks do not have to scan each WIC food twice. Any potential cost savings for food retail vendors vary due to size, volume of WIC business and the efficiency of their own procedures.

WIC NSA COSTS

Mr. Kingston: Total WIC costs increased by nearly $550 million from FY 2008 to FY 2010. However, 66 percent of the increase was attributable to Nutrition Services and Administration (NSA). What efforts is the Department taking to reduce NSA costs so that full or near full participation can take the highest priority?

Response: The increase in costs for benefits and NSA from FY 2008 to FY 2010 was approximately $525.7 million, of which the NSA increase comprised of 68.2 percent of the total program costs. Retail food cost inflation and increases in Program participation spiked to an all time high in FY 2008 and then flattened out during FYs 2009 and 2010. It should be recognized that during this time period WIC State agencies were transitioning to implement the new WIC food packages. The transition to new food packages required WIC State agencies to reprogram their computer systems, provide training for local agency staff and vendors, and reprint food package educational materials. The majority of the remaining increase ($100 million) in costs reflects the effort to finally replace very aged computer systems, move toward implementation of nationwide electronic benefits transfer systems and expand breastfeeding peer counseling programs statewide.

Successful WIC State agency initiatives to contain food costs allow the Program to serve about 25 percent of its annual participation without a corresponding increase in its annual appropriation. The retail value of food provided to WIC participants in FY 2010, prior to infant formula rebates and other credits, was almost $6.3 billion. But, the cost to the federal government for food benefits was just under $4.6 billion. The Program cannot continue to serve all or nearly all participants without adequate facilities, staff and computer systems. As always, the Department and WIC State agencies will continue to look for opportunities to contain Program costs.

DEPARTMENT-WIDE/CROSS-CUTTING ISSUES

Mr. Kingston: Tell the Committee specifically how this budget proposal supports increased economic opportunities and improved quality of life in rural America.

Response: The 2012 budget continues to support all sectors of the rural economy to support economic development across rural America. This budget provides support for regional development. Funding is provided to support the development of regional strategies, recognizing that rural communities benefit from strong relationships with surrounding communities.

The budget contains significant support for the rural housing market to ensure rural residents have access to mortgage credit, while nearly tripling the amount of available funding to support the development of essential community facilities. The budget also requests funding for strategic regional development that will improve economic development and create jobs.

PUBLIC AFFAIRS

Mr. Kingston: Please provide a table that shows the number of professional and clerical staff from each agency and USDA staff office assigned to public affairs activities and the cost by each respective organization, to include projections for fiscal year 2011 and 2012.

Response: The information is submitted for the record.

[The information follows:]

United States Department of Agriculture
Public Affairs Activities
(Dollars in Thousands)

Agency	2010 Employment	2010 Staff Years	2011 Employment	2011 Staff Years	2012 Employment	2012 Staff Years
Office of Communications:						
Professional	60	60.0	66	66.0	66	66.0
Clerical	7	7.0	6	6.0	6	6.0
Budget Authority	$9,722		$9,722		$9,722	
Location of Staff:						
Washington	67	67.0	72	72.0	72	72.0
Field	0	0.0	0	0 0	0	0.0
Office of the Chief Economist:						
Professional	1	1.0	1	1.0	1	1.0
Clerical	0	0.0	0	0.0	0	0.0
Budget Authority	$151		$157		$157	
Location of Staff:						
Washington	1	1.0	1	1.0	1	1.0
Field	0	0.0	0	0.0	0	0.0
ARS:						
Professional	35	35.0	34	34.0	33	33.0
Clerical	2	2.0	2	2.0	2	2 0
Budget Authority	$4,573		$4,758		$4,690	
Location of Staff:						
Washington	37	37.0	36	36.0	35	35.0
Field	0	0.0	0	0.0	0	0.0
NIFA:						
Professional	7	7.0	7	7.0	7	7 0
Clerical	1	1.0	1	1.0	1	1 0
Budget Authority	$799		$803		$864	
Location of Staff:						
Washington	8	8.0	8	8.0	8	8 0
Field	0	0.0	0	0.0	0	0 0
NASS:						
Professional	3	3.0	3	3.0	3	3 0
Clerical	0	0.0	0	0.0	0	0 0
Budget Authority	$366		$373		$373	
Location of Staff:						
Washington	3	3.0	3	3.0	3	3.0
Field	0	0.0	0	0.0	0	0.0
ERS:						
Professional	5	4.3	5	4.3	5	4.3
Clerical	1	0.1	1	0.1	1	0.1
Budget Authority	$628		$628		$628	
Location of Staff:						
Washington	6	4.4	6	4.4	6	4 4
Field	0	0.0		0 0		0 0
FAS:						
Professional	14	10 8	14	13.5	14	14.0
Clerical	3	2.3	3	2.8	3	3.0
Budget Authority	$1,674		$1,695		$1,717	
Location of Staff:						
Washington	17	13.1	17	16.3	17	17.0
Field	0	0.0	0	0.0	0	0.0
FSA:						
Professional	13	13.0	13	13.0	13	13.0
Clerical	0	0.0	0	0.0	0	0.0
Budget Authority	$1,702		$1,712		$1,712	
Location of Staff:						
Washington	8	8.0	8	8.0	8	8.0
Field	5	5.0	5	5.0	5	5.0
RMA:						
Professional	8	8.0	8	8.0	8	8.0
Clerical	1	1.0	1	1.0	1	1.0
Budget Authority	$970		$970		$970	
Location of Staff:						
Washington	7	7.0	7	7.0	7	7.0
Field	2	2.0	2	2.0	2	2.0

Agency	2010 Employment	2010 Staff Years	2011 Employment	2011 Staff Years	2012 Employment	2012 Staff Years
RD:						
Professional	5	4.5	5	4.5	5	4.5
Clerical	1	0.8	1	0.8	1	0.8
Budget Authority	$400		$410		$410	
Location of Staff:						
Washington	6	5.3	6	5.3	6	5.3
Field						
NRCS:						
Professional	96	94.0	94	94.0	94	94.0
Clerical	6	5.0	6	6.0	6	6.0
Budget Authority	$7,720		$7,798		$7,798	
Location of Staff:						
Washington	16	15.0	14	14.0	14	14.0
Field	86	84.0	86	86.0	86	86.0
GIPSA:						
Professional	0	0.0	0	0.0	0	0.0
Clerical	0	0.0	0	0 0	0	0.0
Budget Authority	$0		$0		$0	
Location of Staff:						
Washington	0	0.0	0	0.0	0	0.0
Field						
APHIS:						
Professional	22	22.0	18	18.0	17	17.0
Clerical	2	2.0	1	1.0	1	1.0
Budget Authority	$2,357		$2,107		$2,007	
Location of Staff:						
Washington	16	16.0	14	14.0	13	13.0
Field	6	6.0	5	5.0	5	5.0
AMS:						
Professional	5	4.9	6	4.9	6	4.9
Clerical	1	1.0	1	1.0	1	1.0
Budget Authority	$922		$1,052		$1,052	
Location of Staff:						
Washington	6	5.9	7	5.9	7	5.9
Field	0	0.0	0	0.0	0	0.0
FSIS:						
Professional	14	11.8	14	12.3	15	13.3
Clerical	2	0.6	2	0.6	2	0.6
Budget Authority	$1,061		$1,261		$1,361	
Location of Staff:						
Washington	16	12.4	16	12.8	17	13.9
Field	0	0.0	0	0 0	0	0.0
FNS:						
Professional	25	5.2	25	5.2	25	5.2
Clerical	0	0.0	0	0.0	0	0.0
Budget Authority	$603		$603		$608	
Location of Staff:						
Washington	7	1.5	7	1.5	7	1.5
Field	18	3.7	18	3.7	18	3.7
TOTAL, Public Affairs Activities:						
Professional	313	284	313	289	312	288
Clerical	27	23	25	22	25	23
Budget Authority	$33,648		$34,049		$34,069	
Location of Staff:						
Washington	221	205	222	209	221	209
Field	117	101	116	102	116	102

CONGRESSIONAL RELATIONS

Mr. Kingston: Please provide a table showing the total amount spent on congressional relations a breakout by Agency, to include projections for fiscal year 2011 and 2012.

Response: The information is submitted for the record.

[The information follows:]

U.S. DEPARTMENT OF AGRICULTURE
CONGRESSIONAL RELATIONS ACTIVITIES
(Dollars in Thousands)

AGENCY	2010 Actual Employment	2010 Actual Staff Years	2010 Actual Total Staff Years	2010 Actual % of Staff Years	2011 Annualized CR Employment	2011 Annualized CR Staff Years	2011 Annualized CR Total Staff Years	2011 Annualized CR % of Staff Years	2012 Estimate Employment	2012 Estimate Staff Years	2012 Estimate Total Staff Years	2012 Estimate % of Staff Years
OSEC:												
Professional	12	11 1			14	14 0			14	14 0		
Clerical	4	3 5			3	3 0			3	3 0		
Total	16	14 6	75	19 40%	17	17 0	82	20 73%	17	17 0	82	20 73%
Schedule C Positions		7 0										
Average Cost:												
Professional	$114				$115				$116			
Clerical	$78				$84				$84			
Budget Authority		$1,945				$1,995				$1,969		
ARS:												
Professional	1	1 0			1	1 0			1	1 0		
Clerical	0	0 0			0	0 0			0	0 0		
Total	1	1 0	8,282	0 01%	1	1.0	8,282	0.01%	1	1 0	8,100	0 01%
Schedule C Positions												
Average Cost												
Professional	$145				$145				$145			
Clerical	$0				$0				$0			
Budget Authority		$145				$145				$145		
NIFA:												
Professional	1	0 7			1	0 7			1	0 7		
Clerical	1	0 2			1	0 2			1	0 2		
Total	2	0 9	388	0 23%	2	0 9	410	0 22%	2	0 9	385	0 23%
Schedule C Positions												
Average Cost												
Professional	$134				$134				$134			
Clerical	$10				$10				$10			
Budget Authority		$144				$144				$144		
FAS:												
Professional	4	3 1			4	3 0			4	4 0		
Clerical	0	0 0			1	0.5			1	1 0		
Total	4	3 1	992	0 31%	5	3.5	1,006	0.35%	5	5 0	1,006	0 50%
Schedule C Positions												
Average Cost												
Professional	$115				$118				$118			
Clerical	$55				$55				$55			
Budget Authority		$142				$142				$180		
FSA:												
Professional	2	2 0			2	2.0			2	2 0		
Clerical	0	0 0			0	0.0			0	0 0		
Total	2	2.0	4,989	0 04%	2	2 0	5,094	0.04%	2	2 0	4,590	0 04%
Schedule C Positions												
Average Cost												
Professional	$187				$187				$287			
Clerical	0				0				0			
Budget Authority		$187				$187				$287		
RMA a/:												
Professional	0	0 5			0	0 0			0	0 0		
Clerical	0	0 0			0	0 0			0	0 0		
Total	0	0 5	501	0 10%	0	0 0	568	0 00%	0	0 0	568	0.00%
Schedule C Positions												
Average Cost												
Professional	$50				$0							
Clerical	$0				$0							
Budget Authority		$50				$0						
RD:												
Professional	4	2 5			4	2 5			4	2 5		
Clerical	0	0			1	0 3			1	0 3		
Total	4	2 5	6,057	0 04%	5	2 8	6,100	0 05%	5	2 8	5,850	0 05%
Schedule C Positions												
Average Cost:												
Professional	$225				$225				$225			
Clerical	$0				$25				$25			
Budget Authority		$289				$289				$250		
NRCS:												
Professional	1	1 0			1	1.0			1	1.0		
Clerical	1	1 0			1	1.0			1	1 0		
Total	2	2 0	11,446	0 02%	2	2 0	13,023	0 02%	2	2 0	12,219	0 02%
Schedule C Positions												
Average Cost												
Professional	$150				$150				$150			
Clerical	$49				$49				$49			
Budget Authority		$199				$199				$199		

AGENCY	2010 Actual Employment	2010 Actual Staff Years	2010 Actual Total Staff Years	2010 Actual % of Staff Years	2011 Annualized CR Employment	2011 Annualized CR Staff Years	2011 Annualized CR Total Staff Years	2011 Annualized CR % of Staff Years	2012 Estimate Employment	2012 Estimate Staff Years	2012 Estimate Total Staff Years	2012 Estimate % of Staff Years
APHIS:												
Professional	3	1.55			3	1.08			3	1.08		
Clerical	0	0			0	0			0	0		
Total	3	1.55	8,004	0.02%	3	1.08	7,858	0.01%	3	1.08	7,615	0.01%
Schedule C Positions												
Average Cost:												
Professional	$144				$144				$144			
Clerical	$0											
Budget Authority		$144				$144				$144		
AMS:												
Professional	2	1.5			2	1.5			2	1.5		
Clerical	0	0			0	0			0	0		
Total	2	1.5	2,464	0.06%	2	1.5	2,464	0.06%	2	1.5	2,464	0.06%
Schedule C Positions												
Average Cost												
Professional	$143				$143				$143			
Clerical	0				0				0			
Budget Authority		$145				$145				$145		
FSIS:												
Professional	5	4.3			5	4.3			5	4.3		
Clerical	0	0.0			0	0.0			0	0.0		
Total	5	4.3	9,401	0.05%	5	4.3	9,587	0.04%	5	4.3	9,625	0.04%
Schedule C Positions												
Average Cost												
Professional	$289				$289				$289			
Clerical	$0				$0				$0			
Budget Authority		$289				$289				$289		
FNS:												
Professional	3	1.70			3	1.70			3	1.70		
Clerical	1	0.50			1	0.50			1	0.50		
Total	4	2.20	1,033	0.21%	4	2.20	1,077	0.20%	4	2.20	1,087	0.20%
Schedule C Positions	1				1				1			
Average Cost												
Professional	$150				$150				$150			
Clerical	$68				$68				$68			
Budget Authority		$289				$289				$289		
TOTAL, Congressional Relations Activities:												
Professional	38[a]	30.9			40[a]	32.8			40[a]	33.8		
Clerical	7[a]	5.2			8[a]	5.5			8[a]	6.0		
Total	45[a]	36.1	53,632	0.07%	48[a]	38.3	55,551	0.07%	48[a]	39.8	53,591	0.07%
Schedule C Positions	1[a]	7.0			1[a]	0.0			1[a]	0.0		
Budget Authority		[a]$3,968				[a]$3,968				[a]$4,041		

a/RMA received a transfer from Office of Congressional Relations in FY 2010, totaling $50K. This was primarily related to the renegotiation of the Standard Reinsurance Agreement and the volume of visits/communications with the Hill during this process. This amount offsets the cost for approximately half of a staff year. This work was done by employees that were part of the RMA Public Affairs Staff.

DELINQUENT LOANS

Mr. Kingston: Please provide the Committee with information on delinquent rural development loans with unpaid principal greater than a million dollar loans as of January 31, 2011. Include the number of loans delinquent by program. Also include a similar table for Farm Service Agency delinquent million dollar loans by program.

Response: The information is submitted for the record.

[The information follows:]

Farm Service Agency and Rural Development Delinquent Loans With Principal Balances >$1 million as of January 31, 2011	
Program	Number of Loans
RHS Multi-Family Housing (MFH) 1/	120
RHS Community Facility	40
RBS Business and Industry	6
RBS Intermediary Relending	1
RUS Electric 2/	1
RUS Telephone 2/	25
RUS Water and Environmental	63
FSA Emergency	4

/[1] MFH program calculates delinquencies by project.

/[2] Telephone and Electric Programs calculate delinquencies by borrower.

LOANS WRITTEN OFF

Mr. Kingston: Please provide a table showing the amount of direct farm loans, direct housing loans, and direct rural community advancement program loans that have been written off the books from fiscal year 2000 to the present.

Response: The information is submitted for the record.

[The information follows:]

FARM SERVICE AGENCY
Direct Farm Loans Written Off
Fiscal Years 2000 - 2010
(Dollars in Thousands)

Fiscal Year	Beginning Principal	Losses (Principal and Interest)	Losses as Percent of Principal
2000	$9,035,418	$473,178	5.2
2001	8,710,486	349,942	4.0
2002	8,481,201	446,967	5.3
2003	7,922,653	385,291	4.9
2004	7,513,484	291,949	3.9
2005	6,855,304	244,830	3.6
2006	6,311,422	185,769	2.9
2007	6,101,785	145,351	2.4
2008	5,953,213	99,627	1.7
2009	5,949,567	49,042	0.8
2010	6,576,959	77,631	1.2

RURAL DEVELOPMENT
RURAL COMMUNITY ADVANCEMENT PROGRAM
WRITE-OFFS AND LOSSES ON INSURED LOANS
FY 2000 through FY 2011 as of January 31, 2011

(in thousands of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY2009	FY2010	FY2011 (1/31/2011)	Total
Write-offs on Insured Loans.													
Water and Waste Disposal Loans	$3,160	$227	$241	$1,220	$1,156	$170	$0	$9,694	$3,930	$1,509	$0	$0	$21,307
Community Facility Loans	4,544	1,385	6	3,207	8,806	4,100	6,909	8,869	14,709	4,306	6,931	432	$64,204
Business and Industry Loans	77	1,016	2,244	3,256	9,665	3,678	4,939	21,566	15,334	4,329	481	1,002	$67,587
Resource Conservation and Development Loans & Recreation Association Loans	0	42	0	0	0	0	251	100	0	0	0	0	$393
Total Write-offs on Insured Loans	$7,781	$2,670	$2,491	$7,683	$19,627	$7,948	$12,099	$40,229	$33,973	$10,144	$7,412	$1,434	$153,491

RURAL DEVELOPMENT
RURAL HOUSING INSURANCE FUND
WRITE-OFFS AND LOSSES ON DIRECT LOANS
FY 2000 through FY 2011 AS OF 1/31/2011

(In thousands of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (1/31/11)	Total
Write-offs on Direct Loans													
Single Family Housing	$68,006	$206,343	$224,549	$150,870	$134,891	$93,561	$71,846	$247,626	$43,758	$88,258	$63,527	$24,004	$1,417,239
Domestic Farm Labor Loans	202	2	1	39	59	77	52	0	30	0	0	0	$462
Rental or Cooperative Loans	14,110	15,022	14,369	14,571	10,218	9,332	5,540	27,208	18,109	21,025	22,014	5,109	$176,627
Site Loans	0	0	78	0	0	0	0	0	0	0	0	0	$78
Self-Help	0	0	0	251	0	0	0	162	0	0	0	0	$413
Total Write-offs on Direct Loans	$82,318	$221,367	$238,997	$165,731	$145,168	$102,970	$77,438	$274,996	$61,897	$109,283	$85,541	$29,113	$1,594,819

OSEC STAFFING

Mr. Kingston: Provide a table that lists current staff in each of the OSEC offices, the position title, the grade level, the pay costs associated with each position, the identity of appointment, and how they are funded for fiscal years 2009, 2010, and estimated 2011.

Response: The following table lists current staff on board in each of the OSEC offices, the position title, the grade level, and the pay costs associated with each position. The table also identifies Presidential Appointments with Senate Confirmation-PAS, Schedule C, Non-career, Career positions, and how they are funded. The table reflects staff on board as of September 30, 2009 for fiscal year 2009; September 30, 2010, for fiscal year 2010, as of March 4, 2011 for fiscal year 2011.

[The information follows:]

IMMEDIATE OFFICE
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Secretary of Agriculture	EX-I	$196,700	$49,175	OSEC	PAS
Deputy Secretary of Agriculture	EX-II	177,000	44,250	OSEC	PAS
Chief of Staff	ES	177,000	44,250	OSEC	Non-Career
Deputy Chief of Staff	ES	177,000	44,250	OSEC	Non-Career
Senior Advisor to the Secretary	ES	138,000	34,500	OSEC	Non-Career
Senior Advisor to the Secretary	ES	138,000	34,500	OSEC	Non-Career
Senior Advisor to the Secretary	ES	145,000	36,250	OSEC	Non-Career
Senior Advisor to the Secretary	ES	145,000	36,250	OSEC	Non-Career
Chief of Staff to the Deputy Secretary	ES	145,000	36,250	OSEC	Non-Career
White House Liaison	ES	150,000	37,500	OSEC	Non-Career
Confidential Assistant	GS-15/01	120,830	30,208	OSEC	Schedule C
Director, Faith Based	GS-15/01	120,830	30,208	Faith Based	Schedule C
Special Assistant	GS-12/05	82,845	20,711	OSEC	Schedule C
Special Assistant	GS-14/05	116,419	29,105	OSEC	Schedule C
Staff Assistant	GS-10/09	70,313	17,578	OSEC	Schedule C
Secretary	GS-10/09	70,313	17,578	OSEC	Schedule C
Confidential Assistant	GS-11/01	60,989	15,248	OSEC	Schedule C
Confidential Assistant	GS-09/01	50,408	12,602	OSEC	Schedule C
Staff Assistant	GS-07/01	41,210	10,303	OSEC	Schedule C
Staff Assistant	GS-07/02	42,584	10,646	OSEC	Schedule C

IMMEDIATE OFFICE
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Secretary of Agriculture	EX-I	$199,700	$49,925	OSEC	PAS
Deputy Secretary of Agriculture	EX-II	179,700	44,925	OSEC	PAS
Chief of Staff	ES	177,000	44,250	OSEC	Non-Career
Deputy Chief of Staff	ES	179,700	44,925	OSEC	Non-Career
Senior Advisor to the Secretary	ES	149,040	37,260	OSEC	Non-Career
Senior Advisor to the Secretary	ES	152,250	38,062	OSEC	Non-Career
Senior Advisor	ES	140,000	35,000	OSEC	Non-Career
Senior Advisory	ES	140,000	35,000	OSEC	Non-Career
Chief of Staff to the Deputy Secretary	ES	145,000	36,250	OSEC	Non-Career
Manager of CODEX Alimentarius	ES	177,833	44,458	FSIS	Non-Career
Senior Policy Advisor	ES	152,250	38,063	NRE	Non-Career
Senior Advisor	ES	140,000	35,000	OSEC	Non-Career
Special Assistant	GS-14/06	122,744	30,686	OSEC	Schedule C
White House Liaison	GS-15/02	127,883	31,971	Reimb Advisory	Schedule C
Senior Program Manager for Global Food Securities	GS-15/02	127,883	31,971	FAS	Schedule C
Executive Assistant	GS-12/10	97,333	24,333	OSEC	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	OSEC	Schedule C
Confidential Assistant	GS-15/02	127,883	31,971	RD	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	OSEC	Schedule C
Confidential Assistant	GS-11/02	64,548	16,137	Reimb. Advisory	Schedule C
Deputy Director	GS-12/01	74,872	18,718	Faith Based	Career Conditional
Secretary	GS-10/09	72,022	18,006	OSEC	Career
Secretary	GS-10/10	73,917	18,479	OSEC	Career
Secretary	GS-10/09	72,022	18,006	OSEC	Career
Director of Faith Based	GS-15/02	127,883	31,971	Faith Based	Schedule C
Program Assistant	GS-07/01	42,209	10,552	Faith Based	Schedule C
Program Assistant	GS-07/01	42,209	10,552	Faith Based	Schedule C

IMMEDIATE OFFICE
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Secretary of Agriculture	EX-I	$199,700	$49,925	OSEC	PAS
Deputy Secretary of Agriculture	EX-II	179,700	44,925	OSEC	PAS
Chief of Staff	ES	155,500	38,875	OSEC	Non-Career
Deputy Chief of Staff	ES	179,700	44,925	OSEC	Non-Career
Senior Advisor to the Secretary	ES	152,250	38,062	OSEC	Non-Career
Senior Advisor	ES	140,000	35,000	OSEC	Non-Career
Senior Advisory	ES	140,000	35,000	OSEC	Non-Career
Chief of Staff to the Deputy Secretary	ES	145,000	36,250	OSEC	Non-Career
Manager of CODEX Alimentarius	ES	177,833	44,458	FSIS	Non-Career
Senior Policy Advisor	ES	152,250	38,063	FS	Non-Career
Senior Advisor	ES	140,000	35,000	OSEC	Non-Career
Special Assistant	GS-14/07	126,251	31,563	OSEC	Schedule C
White House Liaison	GS-15/03	132,009	33,002	OSEC	Schedule C
Senior Program Manager for Global Food Securities	GS-15/02	127,883	31,971	OSEC	Schedule C
Executive Assistant	GS-12/10	97,333	24,333	OSEC	Schedule C
Committee Management Officer	GS-14/08	129,758	32,440	OSEC	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	OSEC	Schedule C
Confidential Assistant	GS-15/02	127,883	31,971	RD	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	OSEC	Schedule C
Confidential Assistant	GS-11/02	64,548	16,137	Reimb. Advisory	Schedule C
Secretary	GS-10/10	73,917	18,479	OSEC	Career
Secretary	GS-10/09	72,022	18,006	OSEC	Career
Director of Faith Based	GS-15/02	127,883	31,971	Faith Based	Schedule C
Deputy Director	GS-12/01	74,872	18,718	Faith Based	Career Conditional
Program Assistant	GS-07/01	42,209	10,552	Faith Based	Schedule C
Program Assistant	GS-07/01	42,209	10,552	Faith Based	Schedule C

UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	$40,725	OSEC	PAS
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Special Assistant	GS-14/06	119,844	29,961	OSEC/FFAS	Career

UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Deputy Under Secretary	ES	147,000	36,750	OSEC	Non-Career
Special Assistant	GS-14/06	122,744	30,686	OSEC	Career
Special Assistant	GS-13/04	97,936	24,484	FFAS	Schedule C

UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Deputy Under Secretary	ES	147,000	36,750	OSEC	Non-Career
Special Assistant	GS-14/06	122,744	30,686	OSEC	Career
Special Assistant	GS-13/04	97,936	24,484	FFAS	Schedule C

UNDER SECRETARY FOR FOOD, NUTRITION AND CONSUMER SERVICES
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	$40,725	OSEC	PAS
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Executive Assistan	GS-12/05	82,845	20,711	OSEC/FNS	Career
Staff Assistant	GS-11/03	65,053	16,263	OSEC/FNS	Career

UNDER SECRETARY FOR FOOD, NUTRITION AND CONSUMER SERVICES
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Executive Assistan	GS-12/06	87,350	21,838	OSEC	Career
Staff Assistant	GS-11/04	68,712	17,178	OSEC	Career

UNDER SECRETARY FOR FOOD, NUTRITION AND CONSUMER SERVICES
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Executive Assistan	GS-12/06	87,350	21,838	OSEC	Career
Staff Assistant	GS-11/04	68,712	17,178	OSEC	Career

UNDER SECRETARY FOR FOOD SAFETY
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Deputy Under Secretary	ES	$155,000	$38,750	OSEC	Non-Career
Senior Advisor	GS-15/01	120,830	30,208	OSEC	Schedule C
Special Assistant	GS-14/01	102,721	25,680	OSEC	Schedule C
Secretary	GS-11/07	73,183	18,296	OSEC	Career
Secretary	GS-11/08	75,215	18,804	OSEC	Career

UNDER SECRETARY FOR FOOD SAFETY
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,250	OSEC	PAS
Deputy Under Secretary	ES	155,000	38,750	OSEC	Non-Career
Executive Assistan	GS-15/02	127,883	31,971	OSEC	Schedule C
Secretary	GS-11/09	79,122	19,781	OSEC	Career
Secretary	GS-11/09	79,122	19,781	FSIS	Career

UNDER SECRETARY FOR FOOD SAFETY
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,250	OSEC	PAS
Deputy Under Secretary	ES	155,000	38,750	OSEC	Non-Career
Executive Assistan	GS-15/02	127,883	31,971	OSEC	Schedule C
Secretary	GS-11/09	79,122	19,781	OSEC	Career
Secretary	GS-11/09	79,122	19,781	FSIS	Career

UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	$40,725	OSEC	PAS
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Special Assistant	GS-14/02	106,145	26,536	FS	Schedule C
Staff Assistant	GS-08/01	45,639	11,410	NRCS	Schedule C

UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Natural Resource Specialist	GS-13/02	92,001	23,000	NRCS	Career
Environmental Engineer	GS-15/07	148,510	37,128	NRCS/FS	Career
Deputy Director	GS-15/01	123,758	30,940	NRCS/FS	Career
Special Assistant	GS-14/03	112,224	28,056	OSEC	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	NRCS	Schedule C

UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Deputy Director	GS-15/01	123,758	30,940	NRCS/FS	Career
Chief of Staff	GS-15/03	132,009	33,002	OSEC	Schedule C
Special Assistant	GS-14/03	112,224	28,056	NRE	Schedule C
Staff Assistant	GS-09/01	51,630	12,908	NRE	Schedule C

UNDER SECRETARY FOR RESEARCH, EDUCATION AND ECONOMICS
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	40,725	OSEC	PAS
Senior Advisor	GS-15/01	120,830	30,208	OSEC	Schedule C
Senior Advisor	GS-15/10	153,200	38,300	OSEC	Career
Senior Advisor	GS-15/10	153,200	38,300	OSEC	Schedule C
Secretary	GS-11/04	67,086	16,772	REE	Career

UNDER SECRETARY FOR RESEARCH, EDUCATION AND ECONOMICS
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	165,300	41,325	OSEC	PAS
Deputy Under Secretary	ES	160,336	40,084	OSEC	Non-Career
Deputy Under Secretary	ES	179,700	44,925	OSEC	Non-Career
Senior Advisor	GS-15/10	155,500	38,875	OSEC	Schedule C
Chief of Staff	GS-15/03	139,009	34,752	OSEC	Schedule C

UNDER SECRETARY FOR RESEARCH, EDUCATION AND ECONOMICS
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	165,300	41,325	OSEC	PAS
Deputy Under Secretary	ES	160,336	40,084	OSEC	Non-Career
Deputy Under Secretary	ES	179,700	44,925	OSEC	Non-Career
Senior Advisor	GS-15/10	155,500	38,875	OSEC	Schedule C
Chief of Staff	GS-15/03	139,009	34,752	REE	Schedule C

UNDER SECRETARY FOR RURAL DEVELOPMENT
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	$40,725	OSEC	PAS
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Special Assistant	ES	145,000	36,250	OSEC	Non-Career
Director, Economic and Community Development	GS-15/03	128,886	32,222	RD	Schedule C
Confidential Assistant	GS-11/01	60,989	15,247	RD	Schedule C
Confidential Assistant	GS-11/01	60,989	15,247	RD	Schedule C

UNDER SECRETARY FOR RURAL DEVELOPMENT
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Chief of Staff	GS-15/10	155,500	38,875	OSEC	Schedule C
Director, Economic and Community Development	GS-15/04	136,134	34,034	RD	Schedule C
Confidential Assistant	GS-12/01	74,874	18,719	RD	Schedule C

UNDER SECRETARY FOR RURAL DEVELOPMENT
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Deputy Under Secretary	ES	150,800	37,700	OSEC	Non-Career
Chief of Staff	GS-15/02	127,883	31,971	OSEC	Schedule C
Director, Economic and Community Development	GS-15/04	136,134	34,034	RD	Schedule C
Consultant	EF-301	45,374	11,344	RD	Schedule C
Confidential Assistant	GS-12/01	74,874	18,719	RD	Schedule C

UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$162,900	$40,725	OSEC	PAS
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Deputy Under Secretary	ES	145,000	36,250	OSEC	Non-Career
Special Assistant	GS-15/01	120,830	30,208	OSEC	Schedule C
Confidential Assistant	GS-11/01	60,989	15,248	OSEC	Career Conditional
Program Specialist	GS-12/05	82,845	20,711	MRP	Career

UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Chief of Staff	GS-15/08	152,635	38,159	OSEC	Schedule C
Confidential Assistant	GS-11/02	64,548	16,137	MRP	Career Conditional
Program Specialist	GS-12/05	84,855	21,214	MRP	Career
Staff Assistant	GS-09/01	51,630	12,908	MRP	Schedule C
Staff Assistant	GS-15/01	113,735	28,434	MRP	Schedule C
Program Specialist	GS-14/04	115,731	28,933	MRP	Schedule C

UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	$165,300	$41,325	OSEC	PAS
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Deputy Under Secretary	ES	149,350	37,338	OSEC	Non-Career
Chief of Staff	GS-15/08	152,635	38,159	OSEC	Schedule C
Confidential Assistant	GS-11/02	64,548	16,137	MRP	Career Conditional
Program Specialist	GS-13/02	92,001	23,000	MRP	Career
Staff Assistant	GS-09/01	51,630	12,908	MRP	Schedule C
Staff Assistant	GS-15/01	113,735	28,434	MRP	Schedule C
Program Specialist	GS-14/04	115,731	28,933	MRP	Schedule C

ASSISTANT SECRETARY FOR ADMINISTRATION
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$153,200	$38,300	OSEC	PAS
Deputy Assistant Secretary	ES	160,000	40,000	OSEC	Non-Career
Deputy Assistant Secretary	ES	152,584	38,146	OSEC	Career
Confidential Assistant	GS-15/01	120,830	30,208	OSEC	Career Conditional
Chief of Staff	GS-15/01	120,830	30,208	OSEC	Schedule C
Executive Assistant	GS-13/09	110,109	27,527	OSEC	Schedule C
Consultant	GS-13/04	95,620	23,905	Admin	Career Conditional
Secretary	GS-11/02	63,021	15,755	Admin	Career

ASSISTANT SECRETARY FOR ADMINISTRATION
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Deputy Assistant Secretary	ES	166,400	41,600	OSEC	Non-Career
Deputy Assistant Secretary	ES	164,400	41,100	OSEC	Career
Chief of Staff	GS-15/02	127,883	31,971	OSEC	Schedule C
Management Specialist	GS-15/07	148,510	37,128	Admin	Career
Special Assistant	GS-15/01	123,758	30,940	Admin	Schedule C
Consultant	GS-13/05	100,904	25,226	Admin	Career Conditional
Secretary	GS-12/01	74,872	18,718	Admin	Career
Secretary	GS-11/08	77,040	19,260	Admin	Career

ASSISTANT SECRETARY FOR ADMINISTRATION
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Deputy Assistant Secretary	ES	166,400	41,600	OSEC	Non-Career
Deputy Assistant Secretary	ES	164,400	41,100	OSEC	Career
Chief of Staff	GS-15/02	127,883	31,971	OSEC	Schedule C
Special Assistant	ES	179,700	44,925	Admin	Career
Special Assistant	GS-15/01	123,758	30,940	Admin	Schedule C
Consultant	GS-13/05	100,904	25,226	Admin	Career Conditional
Secretary	GS-12/01	74,872	18,718	Admin	Career
Secretary	GS-11/08	77,040	19,260	Admin	Career

ASSISTANT SECRETARY FOR CIVIL RIGHTS
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$153,200	$38,300	OSEC	PAS
Deputy Assistant Secretary	ES	145,000	36,250	OSEC	Non-Career
Deputy Director of Outreach and Diversity	ES	130,000	32,500	Civil Rights	Non-Career
Special Assistant	GS-13/04	95,620	23,905	OSEC	Career
Special Assistant	GS-15/01	120,830	30,208	Civil Rights	Schedule C
Executive Assistant	GS-12/04	80,409	20,102	OSEC	Career
Executive Assistant	GS-12/05	82,845	20,711	OSEC	Career

ASSISTANT SECRETARY FOR CIVIL RIGHTS
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Special Assistant	GS-15/06	150,800	37,700	OSEC	Career
Deputy Director for Advocacy	ES	133,900	33,475	OSEC	Schedule C
Special Assistant	GS-13/04	97,936	24,484	OSEC	Schedule C
Administrative Specialist	GS-12/09	94,837	23,709	OSEC	Career
Executive Assistant	GS-12/07	89,846	22,462	Civil Rights	Career
Special Assistant	GS-13/02	92,001	23,000	Civil Rights	Schedule C

ASSISTANT SECRETARY FOR CIVIL RIGHTS
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Special Assistant	ES	155,000	38,750	OSEC	Career
Special Assistant	GS-13/04	97,936	24,484	OSEC	Schedule C
Deputy Director for Advocacy	ES	133,900	33,475	OSEC	Schedule C
Administrative Specialist	GS-12/09	94,837	23,709	OSEC	Career
Executive Assistant	GS-12/07	89,846	22,462	Civil Rights	Career
Special Assistant	GS-13/02	92,001	23,000	Civil Rights	Schedule C

ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
Fiscal Year 2009

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$153,200	$38,300	OSEC	PAS
Special Assistant	GS-15/06	140,969	35,242	OSEC	Schedule C
Senior Advisor for Labor Affairs	GS-15/08	149,025	37,256	OSEC	Schedule C
Director, Intergovernmental Affairs	GS-15/05	136,941	34,235	OSEC	Schedule C
Deputy Director Intergovernmental Affairs	GS-15/01	120,830	30,208	OSEC	Schedule C
Confidential Assistant	GS-14/04	112,995	28,249	OSEC	Schedule C
Secretary	GS-11/06	71,151	17,788	OSEC	Schedule C
Secretary	GS-10/08	68,463	17,116	OSEC	Schedule C
Secretary	GS-10/08	68,463	17,116	OSEC	Career
Staff Assistant	GS-08/01	45,639	11,410	OSEC	Schedule C
Motor Vehicle Operator	WG-07/04	47,840	11,960	OSEC	Schedule C

ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Deputy Assistant Secretary	ES	150,000	37,500	OSEC	Non-Career
Special Assistant	GS-15/01	123,758	30,940	OSEC	Schedule C
Director, Intergovernmental Affairs	GS-15/05	140,259	35,065	OSEC	Non-Career
Deputy Director, Intergovernmental Affairs	GS-15/02	127,883	31,971	OSEC	Non-Career
Senior Advisor	GS-15/03	132,009	33,002	RD	Schedule C
Special Assistant	GS-15/06	144,385	36,097	RD	Career
Special Assistant	GS-12/05	84,855	21,214	OSEC	Schedule C
Confidential Assistant	GS-14/04	115,731	28,933	OSEC	Schedule C
Legislative Analyst	GS-11/01	62,467	15,617	OSEC	Career
Staff Assistant	GS-11/01	62,467	15,617	OSEC	Schedule C
Special Assistant	GS-11/02	64,548	16,137	OSEC	Schedule C
Secretary	GS-11/07	74,958	18,740	OSEC	Career
Motor Vehicle Operator	WG-07/05	51,511	12,878	OSEC	Career
Administrative Assistant	GS-10/08	70,126	17,532	OSEC	Career
Legal Analyst	GS-09/01	51,630	12,908	OSEC	Schedule C

ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	$155,500	$38,875	OSEC	PAS
Acting Deputy Assistant Secretary	ES	150,000	37,500	OSEC	Non-Career
Special Assistant	GS-15/01	123,758	30,940	OSEC	Schedule C
Director, Intergovernmental Affairs	GS-15/05	140,259	35,065	OSEC	Non-Career
Deputy Director, Intergovernmental Affairs	GS-15/02	127,883	31,971	OSEC	Non-Career
Senior Advisor	GS-15/03	132,009	33,002	RD	Schedule C
Special Assistant	GS-15/07	148,510	37,128	RD	Career
Special Assistant	GS-12/05	84,855	21,214	OSEC	Schedule C
Confidential Assistant	GS-14/04	115,731	28,933	OSEC	Schedule C
Legislative Analyst	GS-11/02	64,548	16,137	OSEC	Career
Staff Assistant	GS-11/01	62,467	15,617	OSEC	Schedule C
Special Assistant	GS-11/02	64,548	16,137	OSEC	Schedule C
Secretary	GS-12/03	79,864	19,966	OSEC	Career
Motor Vehicle Operator	WG-07/05	51,511	12,878	OSEC	Career
Administrative Assistant	GS-10/08	70,126	17,532	OSEC	Career
Legal Analyst	GS-09/01	51,630	12,908	OSEC	Schedule C

OFFICE OF TRIBAL RELATIONS
Fiscal Year 2010

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Senior Advisor for Tribal Issues	ES	$145,000	$36,250	OTR	Non-Career
Program Specialist	GS-13/01	89,033	22,258	OTR	Schedule C
Program Specialist	GS-13/04	97,936	24,484	OTR	Schedule C
Program Assistant	GS-08/01	46,745	11,686	OTR	Schedule C
Student Trainer Management Analyst	GS-07/01	42,209	10,552	OTR	Schedule C

Program Specialist	GS-13/04	97,936	24,484	OTR	Schedule C
Program Assistant	GS-08/01	46,745	11,686	OTR	Schedule C
Student Trainer Management Analyst	GS-07/01	42,209	10,552	OTR	Schedule C

OFFICE OF TRIBAL RELATIONS
Fiscal Year 2011

TITLE	GRADE	SALARY	BENEFITS	FUNDED BY	IDENTITY OF APPOINTMENT
Senior Advisor for Tribal Issues	ES	$145,000	$36,250	OTR	Non-Career
Program Specialist	GS-13/01	89,033	22,258	OTR	Schedule C
Program Specialist	GS-13/04	97,936	24,484	OTR	Schedule C
Program Assistant	GS-08/01	46,745	11,686	OTR	Schedule C
Student Trainer Management Analyst	GS-07/01	42,209	10,552	OTR	Schedule C

ADVISORY COMMITTEES

Mr. Kingston: For the record, please provide a list of all advisory committees, panels, task forces, and commissions that are funded in fiscal years 2009, 2010 and estimated 2011. Indicate those that are mandated by law and those that are discretionary as well as the funding level of each. Also list each advisory committee, panel, task force and commission that you propose to operate in fiscal year 2012 and the proposed budget for each office.

Response: I will supply the information on all advisory committees, panels, task forces, and commissions that are funded in fiscal year 2009, 2010 and estimated for 2011. Operations for fiscal year 2012 will be considered after final Congressional action.

[The information follows:]

AUTHORITY AND FUNDING FOR USDA ADVISORY COMMITTEES
(Dollars in Thousands)

Committee Title	Authority Statutory (S) or Discretionary (D)	FY 2009	FY 2010	FY 2011
FOOD, NUTRITION AND CONSUMER SERVICES				
National Advisory Council on Maternal, Infant, and Fetal Nutrition	S 42 U S C 1786	$47,563	$41,294	$50,000
FY 2010 Dietary Guidelines Advisory Committee	S 7 U S C 5341	222,294	216,668	0
FOOD SAFETY				
National Advisory Committee on Meat and Poultry Inspection	S 21 U S C 454 (a)(4)	0	33,534	68,000
National Advisory Committee on Microbiological Criteria for Foods	D Departmental Regulation 1043-28	30,625	10,498	160,000
RESEARCH, EDUCATION AND ECONOMICS				
ARS/National Genetic Resources Advisory Council	USDA Discretion, Approved on 5/31/2011			35,000
NIFA/Forestry Research Advisory Council	S 16 U S C 582a-4	21,981	54,185	65,000
ARS/Advisory Committee on Biotechnology and 21st Century Agriculture	D Departmental Regulation 1043-049	81,507	0	286,000
NASS/Advisory Committee on Agricultural Statistics	D Departmental Regulation 1042-130	35,000	0	35,000
USDA/Hispanic Association of Colleges and Universities	D Memorandum of Agreement dated 10/96	19,090	25,359	23,000
MARKETING AND REGULATORY PROGRAMS				
APHIS/National Wildlife Services Advisory Committee	D Departmental Regulation 1043-27	18,956	0	24,000
APHIS/General Conference Committee on the National Poultry Improvement Plan	D Departmental Regulation 1043-8	4,130	24,245	8,500
APHIS/Advisory Committee on Animal Health	D Departmental Regulation 1043-31	0	0	35,000
AMS/National Organic Standards Board	S 7 U S C 6501-6522	96,407	84,762	90,000
AMS/Fruit and Vegetable Industry Advisory Committee	D Departmental Regulation 1042-139	31,636	69,569	70,000
GIPSA/Federal Grain Inspection Advisory Committee	S 7 U S C 87i	45,000	35,781	47,000
FARM AND FOREIGN AGRICULTURAL SERVICES				
FAS/Agricultural Policy Advisory Committee for Trade	S 19 U S C 2101	3,000	18,066	18,520
FAS/Agricultural Technical Advisory Committees for Trade				
Animal and Animal Products	S 19 U S C 2101	8,011	18,066	18,520
Fruits and Vegetables	S 19 U S C 2101	8,011	18,066	18,520
Grains, Feed, and Oilseeds	S 19 U S C 2101	8,011	18,066	18,520
Sweeteners and Sweetener Products	S 19 U S C 2101	8,011	18,066	18,520
Tobacco, Cotton, Peanuts, and Planting Seeds	S 19 U S C 2101	8,011	18,066	18,520
Processed Foods	S 19 U S C 2101	8,011	18,066	18,520
FAS/Advisory Committee on Emerging Markets	S 7 U S C 1421	0	18,066	25,000
FAS/Consultative Group on Child Labor and Forced Labor	S 22 U S C 7101	0	12,050	14,000
FSA/Dairy Industry Advisory Committee	S 7 U S C 1911	0	90,691	100,000
NATURAL RESOURCES AND ENVIRONMENT				
Task Force on Agricultural Air Quality Research	S 7 U S C 5405	117,025	100,073	180,000
OFFICE OF ADVOCACY AND OUTREACH				
Minority Farmer Advisory Committee	S 7 U S C 2279	0	0	80,000
Advisory Committee on Beginning Farmers and Ranchers	S 7 U S C 1929	0	0	80,000
Subtotal, Advisory Committees		822,280	943,237	1,605,140
Contingency Reserve		977,720	856,763	194,860
TOTAL, ADVISORY COMMITTEES UNDER THE STATUTORY CAP		$1,800,000	$1,800,000	$1,800,000
ADVISORY COMMITTEE EXEMPT FROM THE STATUTORY CAP				
MARKETING AND REGULATORY PROGRAMS				
AMS/Plant Variety Protection Advisory Board	S 7 U S C 2327	20,000	20,000	20,000
RESEARCH, EDUCATION AND ECONOMICS				
National Agricultural Research, Extension, Education and Economics Advisory Board	S 7 USC 3123	360,000	297,000	407,000
TOTAL, ADVISORY COMMITTEES		$2,180,000	$2,117,000	$2,227,000

OUTSIDE LEGAL COUNSEL

Mr. Kingston: Please provide the name and firm of any outside counsel hired by the Department in FY 2009 and 2010, the total amount paid for their services, and the reason they were hired.

Response: The information is submitted for the record.

[The information follows:]

U S DEPARTMENT OF AGRICULTURE
Outside Legal Counsel
(Dollars in Thousands)

Agency	Counsel's Name	Firm Name	Amount Paid in 2009	Amount Paid in 2010	Reason/Purpose for Hiring Outside Legal Counsel
Departmental Administration (DA)		Kalijarvi, Chuzi & Newman	0	155	EEO related matters
	Thomas M Beaumont		0	4	EEO related matters
Agricultural Marketing Service (AMS)					
		Legal link, Inc	2	0	Transcript for EEO case
		Kalijarvi Chuzi & Newman	40	0	Civil Rights settlement to pay employee s attorney fees
		The Collin Law Group	1	0	ADR settlement to pay employee s attorney fees
		Financial Management Services	7	0	Civil Rights case for an AMS employee
		Whitman-Walker Legal Service	13	0	Civil Rights case for AMS employee
		Gary Winfield		15	Civil Rights settlement to pay employee s attorney fees
Agricultural Research Service (ARS)		Alston & Byrd	0	42	To represent ARS in a Fair Labor Standards Act claim from AFGE Local 3147
Animal and Plant Health Inspection Service (APHIS)	Dave Feder	FPMI Solutions, Inc	32	0	labor relations expertise/legal counsel
Foreign Agricultural Service (FAS)					
		Tilleke & Gibbins (Thailand)	1	24	Claims preservation and debt collection Representing CCC in bankruptcy proceedings of defaulting Thai importers under Supplier Credit Guarantee Program
		Adnan Kelana Haryanto & Hermanto (Indonesia)	7	0	Claims preservation and debt collection Assisting CCC in recoveries from 4 defaulting Indonesian importers under Supplier Credit Guarantee Program
		Sayenko Kharenko (Ukraine)	14	11	Claims preservation and debt collection Assisting CCC in restructuring debt owed by 2 defaulting Ukrainian banks under GSM-102 Program
		Scoular Company (Mexico)	23	0	Claims preservation and debt collection Shared legal expenses with U S exporter for recovery of defaults by Mexican importer under the Supplier Credit Guarantee Program
		Aequitas Law Firm (Kazakhstan)	0	8	Claims preservation and debt collection Assisting CCC in restructuring debt owed by 3 defaulting Kazakh banks under GSM-102 Program
		Bracewell & Giuliani LLP (Kazakhstan)	0	1	Legal advisor joint procurement with 22 other export credit agencies to provide legal guidance to creditor group in debt restructuring negotiations with BTA Bank, Kazakhstan, which defaulted under the GSM-102 program
		Allen & Overy LLP (Kazakhstan)	0	20	Legal advisor joint procurement with 22 other export credit agencies to develop restructuring plan for creditor group in debt restructuring negotiations with BTA Bank, Kazakhstan, which defaulted under the GSM-102 program
Food and Nutrition Service (FNS)	Tom Magnetti	HMR Consulting, Inc	0	35	HR Consultant Services
Food Safety and Inspection Service (FSIS)	Joe Swerdzewski	Joe Swerdzewski	24	24	Labor Relations Consultation
		Marc and Lieberman	22	0	Labor Relations Consultation
Office of Communications (OC)			0	1	A fee paid to an employee s attorney as part of settlement of a grievance
Office of the Chief Financial Officer (OCFO)	Thomas M Beaumont		0	4	EEO related matters
Office of Civil Rights (OCR)		Assigned Council Inc	0	219	EEO related matters
Natural Resources Conservation Service (NRCS)	Gary Gilbert and Associates	Law Offices of Gary M Gilbert $ Associates PC	104	252	To obtain expert legal services defending NRCS and USDA in litigation before the Equal Employment Opportunity Commission and the Merit Systems Protection Board in cases that posed a conflict of interest for in-house representatives and/or during staffing shortages
Total, USDA			**$288.0**	**$635.7**	

EARLY OUTS AND BUYOUTS

Mr. Kingston: Please provide a table that shows, by fiscal year and agency, the staff year reductions that occurred in 2010 or are expected to occur in 2011 or 2012, including how much has been spent through the use of early outs and buyouts.

Response: The information is submitted for the record.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
Early Outs and Buy Outs
(Dollars in Thousands)

	EARLY OUTS					
	FY 2010		FY 2011		FY 2012	
Agency	Staff Year Reductions	Total Costs	Staff Year Reductions	Total Costs	Staff Year Reductions	Total Costs
Office Of Communications (OC)	5.0	$150	0.0	0	0.0	0
Total	5.0	150	0.0	0	0.0	0

	BUY OUTS					
	FY 2010		FY 2011		FY 2012	
Agency	Staff Year Reductions	Total Costs	Staff Year Reductions	Total Costs	Staff Year Reductions	Total Costs
Departmental Administration (DA)	25.0	$625	0.0	0	0.0	0
Farm Service Agency (FSA)	0.0	0	0.0	0	504.0	$16,000
Agricultural Research Service (ARS)	9.0	225	0.0	0	0.0	0
Foreign Agricultural Service (FAS)	5.0	125	10.0	$250	30.0	750
Natural Resources Conservation Service (NRCS)	0.0	0	16.0	400	200.0	5,000
Office of the Chief Financial Officer (OCFO)	1.0	25	0.0	0	0.0	0
Office of Civil Rights (OCR)	4.0	100	0.0	0	0.0	0
Office of Budget and Program Analysis (OBPA)	4.0	100	0.0	0	0.0	0
Office of the Chief Information Officer (OCIO)	5.0	125	0.0	0	0.0	0
Total	40.0	1,325	26.0	650	734.0	21,750

EARLY OUTS AND BUYOUTS

Mr. Kingston: Which agencies have buyout authority in the current year? Please provide USDA's specific plans to seek buyout authority in the current year or future years?

Response: The Natural Resources Conservation Service (NRCS) has specific buyout authority in FY 2011. NRCS estimates they will have buyouts in FY 2012, but have not sought buyout authority at this time.

Farm Service Agency (FSA) plans to request buyout authority. FSA is currently working on developing plans for the buyout in FY 2012.

All other agencies and offices neither have buyout authority in the current year nor have specific plans to seek buyout authority in the current year or future years.

CODEX ALIMENTARIUS ACTIVITIES

Mr. Kingston: Please provide total expenditures on Codex Alimentarius activities for fiscal years 2008 through the amount requested in the President's fiscal year 2012 request? Please provide a breakout by Agency and a grand total for each year?

Response: The information is submitted for the record.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
Codex Alimentarius
(Dollars in Thousands)

Agency	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget
Food Safety and Inspection Service......	4,058	3,812	3,752	$3,752	$3,734
Grain Inspection, Packers and Stockyards Administration.......	0	5	11	4	8
Agricultural Marketing Service....	259	299	267	255	268
Foreign Agricultural Service....	0	0	325	325	325
Total, Codex Activities....	4,317	4,116	4,355	4,336	4,335

CCC SECTION 11 TRANSFERS AND REIMBURSEMENTS

Mr. Kingston: Please provide for the record a detailed listing of the CCC Section 11 (Cooperation With Other Federal Government Agencies) transfers and reimbursements reflected for fiscal years 2009 and 2010. Provide an estimate for fiscal years 2011 and 2012 as they have not been finalized.

Response: Allocations of the Section 11 cap have been finalized for fiscal years 2009 and 2010. The following tables identify the pending fiscal year 2011 allocation as of February 28, 2011 that is subject to revision. Because Section 11 funding decisions involve a lengthy collaborative process including approval by the Office of Management and Budget, it is too early to provide reliable estimates for fiscal year 2012.

[The information follows:]

FY 2009 CCC Section 11 Transfers and Reimbursements

Agency	Description	Amount Obligated FY 2009
Foreign Agricultural Service	To support the salaries and benefits of positions supporting CCC programs.	$10,000,000
Foreign Agricultural Service	To provide information resource management services required to support CCC programs.	15,027,200
Foreign Agricultural Service	Provide FFAS with FAS-contracted remote sensing imagery.	1,750,000
Foreign Agricultural Service	To support Non-CCC related information technology activities	5,000,000
Foreign Agricultural Service	Contribution for travel related to CCC international activity.	300,000
Foreign Agricultural Service	To conduct activities in support of International Food Assistance Programs.	107,526
Office of the General Counsel	To provide legal services to CCC in the operation of its programs and activities.	250,000
Office of the General Counsel	To conduct activities in support of International Food Assistance Programs.	79,475
Department of Energy	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	4,580,000
Farm Service Agency	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	200,000
Missouri Department of Natural Resources	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	20,000
Farm Service Agency	To provide loan service charges and other administrative reimbursements.	8,715,527
Farm Service Agency	To conduct activities in support of International Food Assistance Programs.	5,912,999
National Agricultural Statistics Service	To provide FSA with county estimates on selected row crops, small grains, oilseeds, and processed vegetables.	100,000
National Agricultural Statistics Service	To provide price data for programs authorized in 2008 Farm Bill.	2,500,000
National Agricultural Statistics Service	To conduct a weekly survey of farmer stock peanut prices by variety.	200,000
Agricultural Marketing Services	To provide CCC all cotton classification information from the AMS regional classification offices.	400,000

Agency	Description	Amount Obligated FY 2009
Agricultural Marketing Services	To perform re-inspection on CCC inventory of non-fat dry milk and salmonella testing.	10,000
Grain Inspection, Packers and Stockyards Administration	To provide inspection services for commodities provided under domestic feeding programs.	50,000
Grain Inspection, Packers and Stockyards Administration	To conduct sampling and testing in support of International Food Assistance Programs.	400,000
Total Transfers and Reimbursables		$55,602,727

FY 2010 CCC Section 11 Transfers and Reimbursements

Agency	Description	Amount Obligated FY 2010
Foreign Agricultural Service	To provide information resource management services required to support CCC programs.	$19,127,000
Foreign Agricultural Service	To conduct activities in support of International Food Assistance Programs.	$120,000
Foreign Agricultural Service	Provide FFAS with FAS-contracted remote sensing imagery.	2,000,000
Foreign Agricultural Service	To support Non-CCC related information technology activities	5,000,000
Foreign Agricultural Service	Contribution for travel related to CCC international activity.	500,000
Office of the General Counsel	To provide legal services to CCC in the operation of its programs and activities.	250,000
Office of the General Counsel	To conduct activities in support of International Food Assistance Programs.	100,000
Department of Energy	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	4,580,000
Farm Service Agency	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	160,000
Missouri Department of Natural Resources	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	30,000

Agency	Description	Amount Obligated FY 2010
Kansas City Department of Health and Environment	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	30,000
Farm Service Agency	To provide loan service charges and other administrative reimbursements.	5,995,656
Farm Service Agency	To conduct activities in support of International Food Assistance Programs.	6,180,000
National Agricultural Statistics Service	To provide FSA with county estimates on selected row crops, small grains, oilseeds, and processed vegetables.	100,000
National Agricultural Statistics Service	To provide price data for programs authorized in 2008 Farm Bill.	2,500,000
National Agricultural Statistics Service	To conduct a weekly survey of farmer stock peanut prices by variety.	200,000
Department of Interior	To provide contractor support to maintain the General Sales Manager Export Credit Guarantee system and Data Mart.	923,000
Agricultural Marketing Services	To provide CCC all cotton classification information from the AMS regional classification offices.	400,000
Agricultural Marketing Services	To perform re-inspection on CCC inventory of non-fat dry milk and salmonella testing	25,000
Grain Inspection, Packers and Stockyards Administration	To provide inspection services for commodities provided under domestic feeding programs.	250,000
Grain Inspection, Packers and Stockyards Administration/and or Agricultural Marketing Services	To conduct sampling and testing in support of International Food Assistance Programs.	730,000
Total Transfers and Reimbursables		$49,200,656

FY 2011 CCC Section 11 Transfers and Reimbursements

Agency	Description	Amount Apportioned FY 2011
Foreign Agricultural Service	To fund salaries and expenses for positions that support CCC programs.	$4,400,000
Foreign Agricultural Service	To provide information resource management services required to support CCC programs.	18,000,000

Agency	Description	Amount Apportioned FY 2011
Foreign Agricultural Service	To conduct activities in support of International Food Assistance Programs.	120,000
Foreign Agricultural Service	Provide FFAS with FAS-contracted remote sensing imagery.	1,500,000
Foreign Agricultural Service	To support Non-CCC related information technology activities.	4,000,000
Office of the General Counsel	To provide legal services to CCC in the operation of its programs and activities.	250,000
Office of the General Counsel	To conduct activities in support of International Food Assistance Programs.	100,000
Department of Energy	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	4,000,000
Farm Service Agency	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	100,000
Missouri Department of Natural Resources	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	20,000
Kansas City Department of Health and Environment	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	20,000
Nebraska Department of Environmental Quality	To provide technical support in the areas of hazardous waste assessments in former CCC/USDA sites for operations and maintenance.	20,000
Farm Service Agency	To provide loan service charges and other administrative reimbursements	5,995,656
Farm Service Agency	To conduct activities in support of International Food Assistance Programs.	6,496,387
Farm Service Agency	To support the Biomass Crop Assistance Program	2,000,000
National Agricultural Statistics Service	To provide FSA with county estimates on selected row crops, small grains, oilseeds, and processed vegetables.	100,000
National Agricultural Statistics Service	To provide price data for programs authorized in 2008 Farm Bill.	2,500,000
National Agricultural Statistics Service	To conduct a weekly survey of farmer stock peanut prices by variety.	200,000

Agency	Description	Amount Apportioned FY 2011
Department of Interior	To provide contractor support to maintain the General Sales Manager Export Credit Guarantee system and Data Mart.	923,000
Agricultural Marketing Services	To provide CCC all cotton classification information from the AMS regional classification offices.	400,000
Agricultural Marketing Services	To perform re-inspection on CCC inventory of non-fat dry milk and salmonella testing.	5,000
Grain Inspection, Packers and Stockyards Administration	To conduct sampling and testing in support of International Food Assistance Programs.	2,500,000
Grain Inspection, Packers and Stockyards Administration/and or Agricultural Marketing Services	To provide food aid quality sampling and testing for specifications requirements.	250,000
Total Transfers and Reimbursables		$53,900,043

Mr. Kingston: What activities are not being funded through CCC Section 11 that, under current law, would fall within that funding authority? How are these activities being funded?

Response: The statutory cap on Section 11 funding established by the Agricultural Market Transition Act, P. L. 104-127, on April 4, 1996, has limited annual funding to the FY 1995 level of $56,102,727. Should requests exceed the total available, the highest priority activities are funded.

Section 11 of the CCC Charter Act (15 U.S.C. 714i), authorizes CCC to pay the costs of personnel, services, facilities, and information of any Federal Government, State, Territory, District of Columbia, or any political subdivision agency which assists the CCC in conducting its business. A copy of 15 U.S.C. 714i is provided below for the record. As with other programs, CCC must budget for activities that must be carried out under Section 11 authority. This requires balancing multiple requests and ensuring activities carried out are done efficiently.

Office of the Law Revision Counsel, U.S. House of Representatives

15 USC Sec. 714i 02/01/2010

TITLE 15 - COMMERCE AND TRADE
CHAPTER 15 - ECONOMIC RECOVERY
SUBCHAPTER II - COMMODITY CREDIT CORPORATION

Sec. 714i. Cooperation with other governmental agencies

The Corporation may, with the consent of the agency concerned, accept and utilize, on a compensated or uncompensated basis, the officers, employees, services, facilities, and information of any agency of the Federal Government, including any bureau, office, administration, or other agency of the Department of Agriculture, and of any State, the District of Columbia, any

Territory or possession, or any political subdivision thereof. The Corporation may allot to any bureau, office, administration, or other agency of the Department of Agriculture or transfer to such other agencies as it may request to assist it in the conduct of its business any of the funds available to it for administrative expenses. The personnel and facilities of the Corporation may, with the consent of the Corporation, be utilized on a reimbursable basis by any agency of the Federal Government, including any bureau, office, administration, or other agency of the Department of Agriculture, in the performance of any part or all of the functions of such agency. After September 30, 1996, the total amount of all allotments and fund transfers from the Corporation under this section (including allotments and transfers for automated data processing or information resource management activities) for a fiscal year may not exceed the total amount of the allotments and transfers made under this section in fiscal year 1995.

June 29, 1948, ch. 704, Sec. 11, 62 Stat. 1073; Pub. L. 104-127, title I, Sec. 161(b)(2), Apr. 4, 1996, 110 Stat. 934.)

AMENDMENTS

1996 - Pub. L. 104-127 inserted at end "After September 30, 1996, the total amount of all allotments and fund transfers from the Corporation under this section (including allotments and transfers for automated data processing or information resource management activities) for a fiscal year may not exceed the total amount of the allotments and transfers made under this section in fiscal year 1995.

EXCEPTIONS FROM TRANSFER OF FUNCTIONS

"For exception of functions of corporations of Department of Agriculture from transfer of functions to Secretary of Agriculture by Reorg. Plan No. 2 of 1953, see Exceptions From Transfer of Functions note set out under section 712a of this title.

http://uscode.house.gov/search/criteria.shtml

COMMON COMPUTING EVNIRONMENT REFRESH

Mr. Kingston: Please provide a comprehensive explanation of the Common Computing Environment refresh request in the FY 2012 President's Budget?

Response: The Common Computing Environment (CCE) represents the shared information technology and telecommunications infrastructure of the Department's Service Center Agencies (SCAs): FSA, NRCS, and RD. The Office of the Chief Information Officer-Information Technology Services (OCIO-ITS) is responsible for maintaining this shared infrastructure to support continued program delivery of the SCAs. Since the CCE was first established in 2000, limited upgrades have been made to the system to maintain functionality; however, no system-wide refreshes have been made. As a result, a significant portion of the CCE infrastructure (e.g., servers, workstations, phone systems) have aged beyond their recommended lifecycles, leaving many components without support from their manufacturer. Collectively, this affects over 75 percent of USDA SCA locations, over 50 percent of ITS supported servers and over 30 percent of end user workstations.

The reactive and unplanned nature of the (break/fix) approach introduces great unpredictability in the timing of not only capital investment requirements, but also of failure incidents. This increases the risk that failures could occur at particularly inopportune times (e.g., farm program signup period) with potentially devastating consequences for SCA mission delivery. The infrastructure is the workspace upon which all programs reside and SCA applications can only be as effective as the infrastructure upon which they run. Consequently, all of SCA operations are threatened by an aging infrastructure on the brink of collapse.

To address these risk factors of an aging IT infrastructure, the Department has developed a plan to refresh the CCE. The FY 2012 funding request will be used to replace existing obsolete equipment along with introducing more efficient and robust technical capabilities. Equipment that would be partially replaced with FY 2012 funding include: workstations (25 percent), phone systems (20 percent), application servers (25 percent), and network equipment (30 percent). New technologies and capabilities implemented would include electronic faxing, managed print services, and expanded mobile devices including tablets and smart phones. Such capability improvements will become especially necessary as the SCAs modernize and improve their business processes and program delivery through the MIDAS Program for FSA; the Consolidated Loan Program for RD; and the Conservation Delivery Streamlining Initiative for the NRCS. These improvement processes will be dependent upon having a reliable and robust infrastructure to support efficient and effective program delivery.

COMMON COMPUTING ENVIRONMENT

Mr. Kingston: Describe your 2010 and 2011 activities and costs for Common Computing Environment in each of the respective agencies and in OCIO if applicable.

Response: The Office of the Chief Information Officer (OCIO) through the Information Technology Services (ITS) provides information technology and telecommunications to the Service Center Agencies. These services include support for the technology infrastructure upon which agencies deliver their programs and the telephone, email, and communications systems used to facilitate effective service delivery. The information related to agency contributions in FY 2010 and 2011 for ITS activities in support of the IT (including the CCE) and telecommunications infrastructure is provided for the record.

[The information follows:]

Service Center Agency Contributions for ITS Services

	FY 2010 (Actual)			FY 2011 (Estimate)		
Infrastructure Component	FSA	NRCS	RD	FSA	NRCS	RD
Peripheral Equipment	$1,703,293	$1,319,791	$496,463	$915,889	$697,453	$303,508
Servers (NITC)	1,469,186	1,018,728	538,817	1,522,064	954,417	663,859
Storage (NITC)	556,447	244,804	56,188	259,929	122,855	31,800
Wired Offices	12,004,794	15,917,827	1,939,362	10,152,606	13,542,135	1,489,482
Workstations	27,992,094	28,561,721	11,001,119	27,277,767	26,763,092	11,269,505
Active Accounts	26,822,609	30,982,781	11,440,474	30,486,218	36,136,482	13,209,294
Office Presence	2,765,075	3,689,133	1,277,827	1,132,006	1,977,781	388,454
Application Servers	11,131,686	7,718,669	4,082,493	10,565,858	6,625,368	4,608,371
eMail Mailboxes	1,374,245	1,548,334	538,996	1,124,940	1,318,283	507,193
Cell Phones	225,906	2,456,307	593,086	116,618	1,366,152	282,528
Blackberry/SmartPhone	624,570	1,220,627	756,273	728,984	1,638,295	1,119,054
Broadband Cards	242,833	504,020	180,713	274,611	589,458	226,328
Misc Wireless Devices	126,504	637,462	107,726	27,180	219,860	19,932
Totals	**$87,039,241**	**$95,820,204**	**$33,009,537**	**$84,584,671**	**$91,951,630**	**$34,119,305**

UNAUTHORIZED PROGRAMS

Mr. Kingston: Provide for the record a list of any unauthorized appropriations included in the fiscal year 2012 budget request.

Response: There are no unauthorized appropriations included in the fiscal year 2012 budget request.

NUTRITION EDUCATION CROSSCUT

Mr. Kingston: Please provide a table listing the resources spent for nutrition education by the Department for fiscal years 2008 through the estimated levels for 2010 and 2011 as well as the requested amount for 2012. List each agency amount separately, and include a Department-wide total for each year.

Response: The information is submitted for the record.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
Nutrition Education and Research Crosscut
and Obesity and Healthy Weight
(Dollars in Thousands)

	2008 Actual	2009 Actual	2010 Actual	2011 CR	2012 Budget
Obesity and Healthy Weight					
Agricultural Research Service	$23,360	$23,840	$25,474	$25,391	$26,254
Economic Research Service	4,978	6,190	6,350	6,350	6,815
Food, Nutrition and Consumer Services	839,130	867,147	1,032,277	1,194,734	1,206,704
National Institute of Food and Agriculture	87,145	90,793	105,804	105,804	109,219
Total, Obesity and Healthy Weight	954,613	987,970	1,169,905	1,332,279	1,348,992
All Other Nutrition Promotion/Education and Research Programs (excludes the above)					
Agricultural Research Service	61,980	61,469	64,260	64,343	62,885
Economic Research Service	7,402	9,285	9,524	9,524	9,679
National Institute of Food and Agriculture	18,563	24,804	18,110	18,110	20,679
Total, All Other Nutrition Programs	87,945	95,558	91,894	91,977	93,243
Totals, by Agency					
Agricultural Research Service	85,340	85,309	89,734	89,734	89,139
Economic Research Service	12,380	15,475	15,874	15,874	16,494
Food, Nutrition and Consumer Services	839,130	867,147	1,032,277	1,194,734	1,206,704
National Institute of Food and Agriculture	105,708	115,597	123,914	123,914	129,898
Total, Nutrition	**1,042,558**	**1,083,528**	**1,261,799**	**1,424,256**	**1,442,235**

CONGRESSIONAL RELATIONS

Mr. Kingston: Please provide a table that shows the transfers, by agency, from the Office of Congressional Relations, and the amount retained for the Immediate Assistant Secretary for fiscal years 2009, 2010, and estimated for 2011. Are there plans to consolidate all agency congressional relations functions under the Assistant Secretary?

Response: In fiscal year 2009, the Office of Congressional Relations transferred $1,978,000. In fiscal year 2010, $2,023,000 was transferred to the agencies and $2,023,000 is expected to be transferred in fiscal year 2011.

There are no plans to consolidate all agency congressional relations functions under the Assistant Secretary.

[The information follows:]

Assistant Secretary for Congressional Relations
Transfer to Agencies
FYs 2009, 2010 and 2011

Agency	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate
Farm Service Agency	$302,000	$187,000	$187,000
Foreign Agricultural Service	197,000	142,000	142,000
Risk Management Agency	0	50,000	50,000
Rural Development	271,000	289,000	289,000
Food and Nutrition Service	290,000	289,000	289,000
Natural Resources Conservation Service	160,000	199,000	199,000
Food Safety and Inspection Service	271,000	289,000	289,0000
Agricultural Research Service	140,000	145,000	145,000
National Institute of Food and Agriculture	130,000	144,000	144,000
Agricultural Marketing Service	108,000	145,000	145,000
Animal and Plant Health Inspection Service	109,000	144,000	144,000
Subtotal	1,978,000	2,023,000	2,023,000
Office of the Assistant Secretary for Congressional Relations	1,899,000	1,945,000	1,945,000
Total	3,877,000	3,968,000	3,968,000

FINANCIAL MANAGEMENT MODERNIZATION INITIATIVE

Mr. Kingston: USDA began implementing the Financial Management Modernization Initiative (FMMI) in October 2009. Provide the Committee with the total amount spent on FMMI by year from its fiscal year 2007 to fiscal year 2010. In addition, please provide a cost estimate to transition the remaining agencies to FMMI by fiscal year starting in fiscal year 2011. Lastly, provide a breakout of operations and maintenance costs for FMMI from FY 2009 to FY 2011.

Response: Spending on FMMI over the FY 2007-2010 period (actual) totaled $28.6 million in operating costs, $92.2 million in transition costs. In addition, USDA estimates that an additional $40.4 million will be spent to transition the remaining agencies unto FMMI during FY 2011-2012. A breakout of the total costs for FMMI operations and the remaining transition costs is provided for the record.

[The information follows:]

FMMI Costs: FY 2007-2010 (Actual)		
Fiscal Year	**Operating Costs**	**Transition Costs**
2007	0	$2,100,000
2008	0	24,747,000
2009	$4,800,000	35,437,000
2010	23,836,000	29,931,000

FMMI Transition Costs: FY 2011-2012 (Estimated)	
Fiscal Year	**Costs**
2011	$23,078,000
2012	17,277,000

FMMI Operations and Maintenance Costs: FY 2009-2011	
Fiscal Year	**Total**
2009 (actual)	$4,800,000
2010 (actual)	23,836,000
2011 (estimated)	29,064,000

VULNERABILITY OF THE FOOD SUPPLY TO A BIOTERRORIST ATTACK

Mr. Kingston: What types of activities is the Department engaged in to prevent or minimize the chances of an attack on the food supply? Please provide a detailed breakout of costs per Agency for food defense activities from FY 2009 to estimated FY 2011 and planned amounts in the FY 2012 President's budget.

Response: USDA is involved in numerous risk mitigation activities to prevent or minimize the chances of an attack on the food supply. These activities include expanding partnerships with Federal, State, local, tribal, and territorial entities as well as private sector representatives. I have asked the Office of Homeland Security and Emergency Coordination to provide additional information for the record.

[The information follows:]

Examples of activities include, but are not limited to, the following:

- Food Defense Plans for Industry. The development of food defense prevention and response capabilities supports the defense of U.S. agriculture and food systems by minimizing the potential impact of a food-related outbreak, terrorist attack, or other disasters affecting the sector. USDA's Food Safety and Inspection Service (FSIS), in conjunction with industry, issued guidance materials to assist slaughter and processing plants, as well as warehouses and distribution centers, with voluntary adoption of food defense plans. These guides provide easy-to-use tools that will result in a completed food defense plan specific to that facility. In FY 2009, 62 percent of USDA/FSIS-regulated establishments had written and implemented a food defense plan. This number increased to 74 percent in FY2010.

- Vulnerability Assessments. Under Homeland Security Presidential Directive 9 (HSPD 9), FSIS continues to conduct vulnerability assessments for meat, poultry, and frozen, liquid, and dried egg products processing and distribution systems, including importation. Assessments identify the threat agents of greatest concern, the most vulnerable food products, and the vulnerable points in individual food production system where intentional adulteration could occur. In FY2009, FSIS completed updates of assessments on food chemical threat agents, the National School Lunch Program, and deli meat. New assessments were completed on domestic and international transportation, and domestic catfish.

- Food Defense Verification Tests. Pursuant to FSIS Directive 5420 Series, FSIS personnel conduct active surveillance of regulated facilities for potential food defense vulnerabilities by performing food defense verification tasks as part of their daily inspection activities. Potential vulnerabilities and industry responses are reported to facility management and documented in Memorandum of Interview (MOI) reports. FSIS analyzes the MOI reports to identify good practices reported by industry. FSIS inspectors also report on the presence or absence of food defense plans in regulated establishments through annual food defense surveys, and this information is analyzed to provide information on voluntary compliance with the guideline. Results of the procedures are reported through USDA/FSIS databases and are analyzed on a routine basis for trends. Results are used to direct FSIS/Office of Data Integration and Food Protection (ODIFP) on outreach and guidance material as well as countermeasure development. Beginning in July 2009, FSIS/ODIFP modified the frequency at which these activities are performed, altering the program emphasis to be risk-based. A higher frequency of procedures is now performed in establishments that produce high volumes of products determined to be of higher risk (with regard to food defense). A lower frequency of procedures is performed in establishments with lower volumes, lower risk products, and food defense plans in place. In FY 2009, in accordance with USDA/FSIS Directive 5420.1, FSIS conducted approximately 1,343,900 food defense verification procedures in approximately 5,231 USDA/FSIS-regulated slaughter and processing facilities and 1,410 State-inspected facilities. In addition, USDA/FSIS conducted approximately 5,000 food defense verification procedures at in-commerce facilities in accordance with USDA/FSIS Directive 5420.3.

- Food Defense Research. ARS food safety research is done in support of DHS needs through FSIS/Office of Biosecurity. ARS continues to conduct research to develop and validate detection methods for biological and chemical agents that can be intentionally used to make the food supply unsafe. This includes specific methods to detect, fingerprint, and characterize the biological agent of concern and focus on foods of the highest concern, for example, milk, liquid eggs, ground beef and ready-to-eat foods. ARS develops predictive models for the growth and survival of biological agents of concern in foods and developed a secure database for predicting the behavior of potential agents over a range of conditions. We conduct lethal dose studies for biological toxins in foods. These data will assist in determining the level of threat the agent poses in a given food system through conducting CARVER + Shock assessments. ARS works closely with DHS, Department of Defense, FSIS, FDA, APHIS, academia, industry, State government and organizations, and international partners to identify, prioritize, and accomplish research objectives. ARS is a member of the Food/Agriculture Sector Joint Committee on Research whose role is the development of a food defense research and research needs assessment and analysis strategy; the development of a consensus strategic plan; the development of an implementation plan; the development of an evaluation plan; and the development of a dissemination and marketing plan for industry food defense research needs.

UNITED STATES DEPARTMENT OF AGRICULTURE
FY 2012 Food Defense
(Dollars in Millions)

	Agency	2009 Actual	2010 Actual	Annualized 2011 CR	2012 President's Budget
Food Defense:					
Surveillance and Monitoring	FSIS	$3.215	$3 215	$3.215	$3.215
Food Emergency Response Network (FERN).	FSIS	7 254	11.350	11 350	7.254
Implement the Electronic Laboratory Exchange Network (eLEXNET) in Laboratories	FSIS	1.587	1.587	1 587	1.587
Implement the Electronic Compilation of Analytical Methods for Data Sharing in Laboratories	FSIS	0 638	0.638	0.638	0.638
FSIS Enhanced Inspections (hired an additional 20 inspectors)	FSIS	2.421	2.469	2.469	2 469
Physical Security	FSIS	0.248	0.248	0.248	0 248
Expand Laboratory Capabilities	FSIS	3 099	3 099	3 099	0.000
Expand Laboratory Capabilities for Chemical and Radiological Threats	FSIS	2.470	2.470	2.470	0.000
Technical Assistance to States/Local	FSIS	2 198	2 198	2 198	2.198
Office of Food Security and Emergency Preparedness	FSIS	2 224	2 269	2 269	2 269
Education/Training	FSIS	2 485	2 485	2 485	2.485
Research	ARS	9.133	10.439	10.039	17.039
Total, Food Defense		**36.972**	**42.467**	**42.067**	**39.402**
RECAP:					
Food Safety and Inspection Service (FSIS)		27 839	32.028	32.028	22 363
Agricultural Research Service (ARS)		9 133	10.439	10.039	17 039
Total, Food Defense		**36.972**	**42.467**	**42.067**	**39.402**

HOMELAND SECURITY

Mr. Kingston: Please tell the Committee what USDA is doing to coordinate efforts with other federal, state or local organizations to protect human health, and the food, agriculture and environmental sectors.

Response: Homeland security is not the responsibility of one government department or agency; it is a partnership effort. Significant progress in meeting homeland security goals can only be accomplished through partnerships among all governmental levels and those who own critical infrastructure and key resources. To that end, USDA leverages the private sector and government coordinating councils as a primary mechanism to coordinate efforts with other Federal, State or local organizations to protect human health, and the food, agriculture and environmental sectors.

The food and agriculture sector is administered nationally by a partnership between the Government Coordinating Council (GCC) that represents governmental agencies at all levels, and the Sector Coordinating Council (SCC) that represents the private sector and is made up of representatives from producers, processors, restaurants & food services, retail, inputs and services, and warehousing and logistics organizations. The joint mission of these organizing bodies acknowledges the Nation's critical reliance on food and agriculture. The sector will strive to ensure that the Nation's food and agriculture networks and systems are secure, resilient, and rapidly restored after all-hazards incidents. Public and private partners aim to reduce vulnerabilities and minimize consequences through risk-based decision making and effective communication.

Through routine conference calls, joint quarterly meetings, and participation in exercises, worskhops, and related activities, the coordinating councils provide an opportunity to discuss key issues and challenges associated with protecting the food and agriculture sector. They also provide a unique opportunity to identify areas of improvement and work together, coordinating limited resources within Federal, State, local, tribal, and territorial governments and private sector organizations to implement risk mitigation activities to reduce risk.

CULTURAL TRANSFORMATION

Mr. Kingston: Please provide the Committee a detailed explanation of the goals, activities and spending on your Cultural Transformation efforts. Specifically, please detail spending efforts for Fiscal Year 2011 to date and planned expenditures for the remainder of year.

Response: The Department is committed to a new era of excellence in which USDA is recognized as one of the premier organizations in government and a worldwide leader. Cultural Transformation means a USDA that is responsive, collaborative, transparent and highly effective in carrying out its many missions, and at the same time completely respectful and embracing of diversity in regards to its own workforce and the constituents it serves. A transformed USDA has a highly engaged workforce that is motivated, trained and empowered to successfully meet future challenges.

Our current Cultural Transformation efforts are focused on the following:

- An inclusive workplace environment where there is equity of opportunity and empowerment of all employees to reach their full potential;
- A commitment to improve USDA's record of civil rights; including expanded outreach to socially disadvantaged farmers and ranchers;
- Developing systems of accountability that encourage employees at all levels to achieve high standards of performance and customer service; and
- A renewed commitment to creating diversity in the workforce and succession planning.

Some of our recent activities to promote these efforts include publishing the U. S. Department of Agriculture FY 2011-2012 Diversity Road Map. That road map features leadership and accountability, outreach and partnership, recruitment and hiring, retention and promotion, diversity training and awareness, and employment and employee development and recognition. The goal is to make USDA more analogous to the non-governmental labor force - to look like America.

Spending on activities related to the transformation effort from October to February totaled approximately $480,000. This amount included support for transformation training and development, in addition to printing and program support costs.

Looking ahead for the March to September timeframe, our Virtual University (VU) is aiming to hire staff and to deliver Cultural Transformation training to all Departmental Management employees. The VU is planning to provide Telework training for managers and supervisors to implement the newly issued OPM guidance on telework under the Telework Enhancement Act (HR 1722) with an estimated cost of $100,000. An Executive Coaching program will be developed to coach new supervisors and managers at a cost of $150,000. The Wallace-Carver Student Intern Program will start with a one week orientation in D.C. for new participants at a cost of $75,000. There will be two annual meetings for the Senior Executive Candidate Development Program graduates at a cost of $10,000. There will be an annual meeting for all USDA Training Officers to discuss progress under the Cultural Transformation and agencies' training needs at a cost of $40,000. DM leadership development training and USDA mentor training will be offered at a cost of $150,000 and $250,000 respectively. A USDA emerging leader program will be conducted at a cost of $250,000. A Senior Executive Service (SES) Onboarding Program will be conducted at cost of $25,000. The USDA SES Candidate Development Program will be conducted and is anticipated to cost the USDA agencies $1.6M.

Another product that will be soon rolled out is a Tool Kit that is a "how to" presentation for State Offices and program agencies that will help document the benefits of Cultural Transformation, monitor progress and be used to evaluate performance. This will cost approximately $100,000.

Our Veteran hiring program and other recruitment and retention activities that support our Diversity efforts are now in place and ongoing.

All of Cultural Transformation activities are predicated on a continued level of funding that is close to the FY 2010 levels. Many of the activities involved shared costs with the USDA agencies. With the current funding uncertainties, we are looking carefully at on-going activities with an eye towards economies of scale and if necessary retrenchment.

HEADQUARTERS EMPLOYEES

Mr. Kingston: For the record, provide a table, by agency/office, showing Washington, D.C. headquarters personnel broken out between GS and SES for FY 2008 to FY 2011.

Response: The information is submitted for the record.

[The information follows:]

Washington, DC
Headquarters Employees
By Agency
Employment as of September 30

Agency	Fiscal Years 2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Annualized CR
Farm Service Agency					
SES	15	17	9	12	12
GS	1,614	1,579	1,542	1,477	1,467
Risk Management Agency					
SES	3	3	3	4	4
GS	74	75	69	79	82
Foreign Agricultural Service					
SES	7	7	7	6	6
GS	514	518	518	539	539
Rural Development					
SES	17	17	18	18	18
GS	1,630	1,587	1,632	1,562	1,698
Food and Nutrition Service					
SES	8	8	8	8	8
GS	488	461	534	525	541
Food Safety and Inspection Service					
SES	27	23	24	19	19
GS	721	725	714	707	717
Natural Resources Conservation Service					
SES	25	25	18	21	21
GS	405	375	390	384	384
Animal and Plant Health Inspection Service					
SES	22	22	24	26	26
GS	1,213	1,255	1,277	1,275	1,282
Agricultural Marketing Service					
SES	10	11	11	11	12
GS	550	560	546	560	552
Grain Inspection, Packers and Stockyards Administration					
SES	3	4	4	3	3
GS	98	128	166	138	138
Agricultural Research Service					
SES	15	15	10	11	11
GS	498	489	497	499	499
National Institute of Food and Agriculture					
SES	10	10	10	8	10
GS	370	350	361	368	374
Departmental Administration					
SES	9	7	6	7	6
GS	211	214	224	224	244
Economic Research Service					
SES	7	7	7	7	7
GS	358	357	368	368	368

Agency	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Annualized CR
	Fiscal Years				
Homeland Security Staff					
SES	1	1	1	1	2
GS	5	3	5	2	17
National Appeals Division					
SES	1	1	1	1	1
GS	98	100	93	90	102
National Agricultural Statistics Service					
SES	10	10	10	9	9
GS	364	400	405	421	422
Office of Budget and Program Analysis					
SES	6	6	5	4	5
GS	52	50	44	42	53
Office of the General Counsel					
SES	17	18	17	21	21
GS	143	134	142	134	134
Office of Inspector General					
SES	9	10	10	9	10
GS	112	106	146	157	135
Office of Civil Rights					
SES	3	2	2	2	4
GS	116	111	118	130	127
Office of Communications					
SES	2	2	2	2	2
GS	67	67	63	65	70
Office of the Chief Economist					
SES	5	5	4	4	5
GS	49	46	47	48	54
Office of the Chief Financial Officer					
SES	1	1	1	1	2
GS	41	37	31	32	34
Office of the Chief Information Officer					
SES	6	6	6	6	6
GS	54	56	54	73	113
Office of the Secretary					
SES	32	29	30	39	36
GS	45	42	29	36	46
Total, USDA					
SES	270	266	247	259	265
GS	8,870	8,865	9,070	9,935	10,192

WORKING CAPITAL FUND AND GREENBOOK

Mr. Kingston: Please provide the Committee with a full breakdown of charges and expenses in the Department's Working Capital Fund and Greenbook charges by Agency for Fiscal Years 2008, 2009, 2010 and estimated 2011.

Response: The information is submitted for the record.

[The information follows:]

WORKING CAPITAL FUND INCOME, BY ACTIVITY, FYs 2008-2011				
Activity Centers	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
National Finance Center	$61,401,930	$60,202,320	$73,051,383	$72,227,576
Controller Operations	30,536,911	30,683,027	32,838,998	32,468,670
Commercial Services Management	54,416,083	59,218,463	65,804,834	-
Financial Systems	523,690	373,203	-	65,062,747
Internal Control Support Services	3,521,296	3,727,970	3,472,521	3,433,361
Grants Management Line of Business	544,321	604,944	-	-
Created Media and Broadcast Center	8,519,177	4,520,792	4,223,466	4,175,837
National Information Technology Center	65,897,506	70,199,742	78,202,626	77,320,728
National Telecommunication Service Office	16,995,021	18,077,133	15,877,159	15,698,111
International Technology Services	23,263,630	43,011,678	276,121,822	273,007,971
Computer Services Unit	6,198,118	7,125,536	14,585,371	14,420,891
Telecommunication Customer Service Center	2,628,823	2,628,823	2,657,332	2,627,365
Network Services	6,331,706	6,293,356	6,293,353	6,222,382
Enterprise Share Services	19,916,179	22,076,800	22,076,799	21,827,837
Central Supply Stores	3,977,408	4,219,077	4,241,084	4,193,256
Consolidated Forms & Publication Distribution Center	4,256,378	4,408,562	4,417,824	4,368,004
Central Excess Property	1,052,217	1,047,432	1,002,613	991,307
Central Shipping & Receiving	1,091,405	1,091,405	1,033,434	1,021,780
Central Mail Unit	7,382,117	7,292,232	7,163,001	7,082,223
Copier and Duplicating Service	7,443,037	7,082,962	7,610,002	7,524,183
Integrated Procurement System	16,951,856	16,902,538	17,102,244	16,909,380
Office of Executive Secretariat	3,089,352	3,100,185	3,100,176	3,065,215
TOTAL, Working Capital Fund	**$545,938,160**	**$573,888,180**	**$640,876,042**	**$633,648,824**

- **Office of the Chief Financial Officer (OCFO)**

  - **National Finance Center** - Provides payroll/personnel services to USDA/Non-USDA agencies, applications support to Office of Personnel Management, and support services for USDA accounting applications.

  - **Controller Operations Division** - Provides core accounting/reporting services, agency specific services, and operates a corporate controller organization that integrates accountability and systems across USDA.

  - **Financial Systems** - Operates/maintains the following systems: 1. Foundation Financial Information System (FFIS-core accounting) 2. Real property 3. Corporate integrated administrative payments 4. Financial Management Modernization Initiative (FMMI). The primary objective of the FMMI is to improve financial management performance by efficiently providing USDA agencies with a modern, core financial management system that both complies with federal accounting and systems standards and provides maximum support to the USDA mission. 5. Other systems as necessary to support program agency missions and fulfill USDA's fiduciary responsibilities to taxpayers.

- **Internal Control Support Services -** Responsible for providing support to USDA agencies in their efforts to achieve compliance under OMB Circular A-123, "Management's Responsibility for Internal Control"; provides technical assistance and support to ensure that agencies achieve compliance goals under the Circular.

➢ **Office of Communications (OC)**

Created Media and Broadcast Center - Provides a wide array of video production and teleconferencing (both audio and video) services, design and layout services for publications, graphics productions, and camera ready art for printing; also designs, constructs, refurbishes, and ships exhibits; web page development support.

➢ **Office of the Chief Information Officer (OCIO)**

- **National Information Technology Center** - Provides mainframe computer operations and application development and support services to support agency programs. Also provides IT consulting services and training, and supports the data warehouse to FFIS.

- **Enterprise Shared Services** - Enterprise Shared Services (ESS) is a suite of development aids, platforms, and applications that facilitate USDA's department-wide effort to deliver citizen-centric, online information and services. USDA developed ESS to leverage business, technology, and data principles to provide agencies the capability to maximize efficiencies and reduce costs while improving customer service. The business applications are hosted in a shared environment at the National Information Technology Center.

- **National Telecommunications Services Office** - Provides centralized telecommunications support services nationwide for the USDA; manages and provides internet access to USDA agencies and data connections between agencies (USDA Intranet); assists agencies in using telecommunication services in a cost-effective manner.

- **International Technology Services** - Provides information technology infrastructure support for the national, state and local program delivery aspects of the Farm Service Agency, Natural Resources Conservation Service and Rural Development, including each agency's primary partners.

➢ **Departmental Administration (DA)**

- **Computer Services Unit** - Provides LAN, Desktop, Application, and Web development support and maintenance to the Office of the Secretary (OSEC).

- **Telecommunications Customer Service Center** - Manages and maintains the USDA's voice telephone services in the WMA that serves as the single point of contact for all local requests for telephone services and purchases; manages and administers the nationwide Voice Mail System; provides maintenance services for telephone equipment in the WMA and voice mail services.

- **Network Services** - Provides technical/operational assistance on data networking telecommunications systems; designs, installs, operates, and manages shared services provided on the Departmental networks and platforms; participates in the design, engineering, and operations management of the Enterprise Network.

- **Consolidated Forms and Publications Distribution Center** - Provides acquisition (printing), warehouse, and worldwide distribution of administrative forms and publications for all USDA agencies and non-USDA agencies; provides warehouse distribution of agency program and publications for all USDA agencies and for other participating government agencies.

- **Central Excess Property Operation** - Provides customer service and disposition for all excess property for USDA and other federal agencies in the Washington Metropolitan Area (WMA) under the concept of a Cooperative Administrative Support Program (CASU): provides property rehab services in an effort to promote utilization of serviceable excess and rehab property in lieu of purchasing new property.

- **Central Shipping and Receiving** - Provides a central facility to ship and receive large items for USDA agencies; maintains facilities in the DC Buildings Complex and at the Beltsville Service Center.

- **Central Mail** - Provides central processing of incoming, outgoing, and interoffice mail; special handling services for priority items in the DC area. Door-to-door: pickup and delivery service of routine and special mailings in the DC downtown buildings complex.

- **Copier and Duplicating Service** - Provides centralized copier facilities and equipment for employees in Washington DC and satellite locations; provides full service printing for the Office of the Secretary and USDA agencies headquartered in the WMA.

- **Departmental Mailing List Service** - Maintains centralized mailing lists for agencies and staff offices and high speed printer service for NFC reports production.

- **Central Supply Stores** - Maintains self-service and warehouse facilities for small or bulk purchases of common office supplies; produces identification cards for USDA headquarters personnel.

- **Integrated Procurement Systems** - Develops, implements, and maintains a suite of corporate acquisition software tools, streamlining processes, and provides procurement support to USDA agencies; develops, implements, and maintains an interface with the USDA corporate financial system.

- **Office of the Executive Secretariat (OES)**

  Provides referral and correspondence control services to the Department for mail addressed to the Department, the Secretary, and the immediate Office of the Secretary.

WORKING CAPITAL FUND INCOME, USDA AGENCIES, FY 2008-2011				
Agencies listed in order of agency codes	FY 2008	FY 2009	FY 2010	FY 2011**
Office of the Secretary	$788,098	$824,067	$1,043,209	$1,031,445
Agricultural Marketing Service	6,932,800	8,800,770	10,126,236	10,012,042
Agricultural Research Service	11,785,509	11,963,941	12,628,616	12,486,202
Rural Development	71,316,943	69,243,666	82,109,700	81,183,741
Risk Management Agency	2,029,451	1,351,792	1,113,283	1,100,728
Foreign Agricultural Service	4,394,963	6,280,357	10,855,380	10,732,963
Forest Service	89,209,692	94,614,240	88,649,424	87,649,716
Office of Communications	679,237	735,317	730,408	722,171
Office of the General Counsel	839,518	902,154	843,576	834,062
Natural Resources Conservation Service	109,379,789	118,610,564	128,200,194	126,754,469
Economic Research Service	693,983	734,209	665,917	658,408
National Agricultural Statistics Service	3,324,608	3,500,628	3,598,774	3,558,190
National Institute of Food and Agriculture	1,948,826	1,872,060	1,918,976	1,897,335
Office of Inspector General	1,387,469	1,492,836	1,479,937	1,463,247
Food and Nutrition Service	3,805,929	3,810,635	3,703,617	3,661,851
Animal and Plant Health Inspection Service	18,671,327	17,273,398	18,596,429	18,386,715
Grain Inspection, Packers and Stockyards Administration	1,660,494	1,734,212	2,002,627	1,980,044
Food Safety and Inspection Service	15,772,994	16,754,465	20,404,456	20,174,353
Office of the Chief Economist	375,739	365,124	317,748	314,165
Office of Budget and Program Analysis	164,106	170,344	164,762	162,904
Office of the Chief Financial Officer	41,749,348	37,825,938	42,417,190	41,938,847
Departmental Administration	4,720,011	5,256,196	15,174,073	15,002,954
Office of Civil Rights	1,498,436	1,546,004	1,233,100	1,219,194
Office of Executive Secretariat	200,577	235,635	227,947	225,377
Farm Service Agency	123,706,767	135,456,545	151,917,324	150,204,138
Office of the Chief Information Officer	28,304,057	32,013,719	40,143,053	39,690,357
National Appeals Division	597,488	519,359	610,087	603,206
Total Working Capital Fund	**545,938,160**	**573,888,180**	**640,876,042**	**633,648,824**

*Amounts represent income for services provided during the fiscal year indicated; these amounts will differ from those provided in budget exhibits (which are expressed as expenses on a cost basis). The Working Capital Fund operates on an income-equals-expense basis, but incidental profits and losses occur as a normal product of business activity.

** Estimates are based on FY 2010 shares of income applied to the estimated expenses for FY 2011. These amounts may change based on Congressional budget action and/or business activity during the fiscal year.

Department-wide Greenbook Charges by Activity				
	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate
Advisory Committee Liaison Services	$189,451	$196,813	$192,218	$374,000
USDA Tribal Liaison	67,495	11,160	0	0
Faith-Based Initiatives and Neighborhood Partnerships	356,038	201,317	409,000	409,000
Intertribal Technical Assistance Network	0	0	2,000,000	2,000,000
Hispanic Serving Institutions National Program	1,442,000	1,440,697	1,973,000	2,059,000
1890 USDA Initiatives	2,400,182	2,296,980	2,398,947	3,088,000
USDA 1994 Program	418,015	543,648	431,662	810,000
USDA Human Resources Transformation Programs	477,660	368,061	343,579	1,689,000
Virtual University	0	0	0	1,380,000
Visitor Information Center	188,022	355,836	546,096	1,050,000
Honor Awards	75,152	0	66,902	80,000
TARGET Center	913,343	924,543	933,999	947,000
Drug Testing Program (transferred to agency direct bill in FY10)	84,618	91,951	0	0
Sign Language Interpreter Services*	224,823	222,623	229,136	1,244,000
Emergency Operations Center	2,195,021	2,171,215	2,311,958	2,402,000
Labor & Employee Relations Tracking & Reporting System	19,980	4,000	0	0
Continuity of Operations Planning	1,531,466	1,779,808	1,780,111	1,859,000
Personnel and Document Security	1,640,495	1,582,435	1,604,461	1,676,000
Federal Biobased Products Preferred Procurement Program	348,310	347,706	351,751	357,000
Radiation Safety (transferred to agency direct bill in FY11)	927,000	925,317	947,000	0
Retirement Processor Web Application	337,994	302,557	338,000	539,000
Medical Services	0	0	0	350,000
Facility and Infrastructure Review and Assessment	0	0	0	250,000
Preauthorized Funding	2,853,125	2,438,853	3,100,000	3,100,000
Financial Management Modernization Initiative	1,970,816	4,950,796	0	0
E-GOV Initiatives (transferred to agency direct bill in FY10)	11,674,821	11,674,776	0	0
E-GOV Initiatives HSPD-12	14,803,154	12,780,236	11,317,101	7,253,000
E-GOV Initiatives Content Management	1,310,000	1,500,000	667,504	0
Enterprise Network Messaging (transferred to agency direct bill in FY10)	5,480,995	5,499,582	0	0
USDA Enterprise Contingency Planning Program (LDRPS)	874,430	879,648	0	0
USDA IT Infrastructure Security	3,000,000	3,000,000	0	0
USDA Cyber Security Assessment and Management	1,519,532	1,590,066	0	0
Total Departmental Greenbook Charges	**$57,323,938**	**$58,080,624**	**$31,942,425**	**$32,916,000**

*Sign Language Interpreter Services fiscal year 2011 estimate includes an additional $1,000,000 for services previously billed directly to the agencies through agency-specific agreements.

Department-wide Greenbook Charges by Agency				
	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate
Office of the Secretary	$31,971	$30,592	$13,352	$13,000
Agricultural Marketing Service	1,232,993	1,235,598	885,549	881,000
Agricultural Research Service	4,447,429	4,453,517	3,128,442	2,367,000
Rural Development	3,167,096	3,200,017	1,811,294	1,884,000
Risk Management Agency	241,343	241,663	154,466	170,000
Foreign Agricultural Service	909,897	925,398	500,983	614,000
Forest Service	18,910,748	19,185,989	9,640,669	10,432,000
Office of Communications	40,070	40,071	28,102	41,000
Office of the General Counsel	147,613	148,146	91,908	107,000
Natural Resources Conservation Service	5,164,653	5,199,384	3,462,367	3,890,000
Economic Research Service	210,134	212,447	114,112	159,000
National Agricultural Statistics Service	587,071	594,448	327,484	389,000
National Institute of Food and Agriculture	282,160	289,165	133,413	194,000
Office of Inspector General	441,415	438,144	338,519	284,000
Food and Nutrition Service	989,380	1,015,546	390,044	506,000
Animal and Plant Health Inspection Service	4,612,397	4,670,146	2,686,265	2,654,000
Grain Inspection, Packers and Stockyards Administration	365,372	370,782	203,631	285,000
Food Safety and Inspection Service	4,293,985	4,319,907	2,815,276	2,843,000
Office of the Chief Economist	84,374	88,753	15,596	25,000
Office of Budget and Program Analysis	27,318	27,251	17,738	25,000
Office of the Chief Financial Officer	977,703	991,787	516,723	461,000
Departmental Administration	203,243	202,686	150,210	193,000
Office of Civil Rights	84,499	86,004	34,628	57,000
Office of Executive Secretariat	7,429	7,417	0	3,000
Farm Service Agency	7,357,071	7,453,182	4,116,583	4,086,000
Office of the Chief Information Officer	2,463,317	2,608,242	337,091	323,000
National Appeals Division	44,287	44,342	27,980	30,000
Total Departmental Reimbursable Programs	**$57,323,938**	**$58,080,624**	**$31,942,425**	**$32,916,000**

FOOD SAFETY

Mr. Kingston: How many meat and poultry slaughter and processing inspectors were funded in Fiscal Year 2010 and are currently being funded in Fiscal Year 2011. How many will be funded in 2012 under the President's budget request?

Response: As of October 1, 2010, FSIS employed a domestic inspection workforce of 7,563 permanent full time employees and 483 other than permanent employees. The FY 2011 target for permanent full time employees is 7,600 and 300 other than permanent employees. For FY 2012, FSIS intends to increase by 40 inspectors to 7,640 full time employees.

FSIS RETENTION RATE

Mr. Kingston: What is the retention rate for the meat and poultry inspection workforce and how does it compare to historic trends? What is USDA doing to ensure that there is a qualified inspection workforce for the future?

Response: The retention rate of meat and poultry inspection personnel in calendar year 2010 was 93.7 percent. FSIS has consistently maintained strong retention rates of over 90 percent per year with the five-year average retention rate of 93.4 percent. FSIS' Human Resources Division monitors attrition rates so that trends can be incorporated into recruitment plans.

FSIS uses a number of creative mechanisms to ensure that the Agency is able to hire and retain a quality inspection workforce for the future. For example, FSIS granted superior qualification appointments (to improve its competitiveness with the private sector); used direct-hire authority from OPM for Public Health Veterinarian and Food Inspector positions in hard-to-fill locations (to expedite the hiring process); leveraged the Student Loan Repayment Program's central fund which offers student loan repayments of $10,000/year (for a total benefit maximum of $20,000) to recently-recruited public health veterinarians; and quadrupled veterinarian recruitment incentives by offering up to 25 percent of salary for four years rather than one.

FSIS INSPECTION PROGRAM

Mr. Kingston: What is the Department's interpretation as to the minimal legal requirement for the number and frequency of inspectors in both slaughter and processing plants? Please provide a distinction for poultry and non-poultry plants as necessary.

Response: FSIS inspection program personnel, as required by the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act, must be present for all domestic slaughter operations, inspecting each and every livestock and poultry carcass; at each egg products processing establishment while in operation on a continuous basis; and at each meat and poultry processing establishment at least once per shift. Therefore, in FY 2010, the Agency employed more than 8,000 in-plant and other front-line personnel protecting public health in approximately 6,200 federally inspected establishments nationwide.

Of these personnel, the FY 2010 Appropriations Act required that no fewer than 140 full-time equivalent (FTE) positions be dedicated to inspections and enforcement related to enforcing the Humane Methods of Slaughter Act (HMSA), which requires that all livestock be handled and slaughtered in a humane manner. Because HMSA tasks are not performed by a single person at an establishment, FSIS measures the effort it expends in FTE staff years, which refer to hours spent performing these tasks equivalent to 80 hours in a two-week pay period, projected out to one year. In compliance with the Appropriations Act, in FY 2010, the agency devoted 142.1 full-time equivalent staff years to the verification and enforcement of humane handling requirements in federally inspected establishments.

PUBLIC HEALTH INSPECTION SYSTEM

Mr. Kingston: Please provide the Committee with the total costs for the Public Health Information System in each year from FY 2008 to estimated FY 2011.

Response: Spending on the Public Health Information System was $52,310 in FY 2008; $4,445,879 in FY 2009; $9,526,115 in FY 2010; and $18,875,000 estimated for FY 2011. FY 2008 and FY 2009 are solely system development costs and FY 2010 and FY 2011 reflect both system development and implementation costs.

PEST AND DISEASE PROGRAMS

Mr. Kingston: What are the Department's plans for making pest and disease prevention and eradication programs a priority? What is USDA doing to inform or educate OMB on the need to make these programs a priority?

Response: USDA takes very seriously its mission to protect the health and value of American agriculture and natural resources. In development of each fiscal year's budget, we weigh the needs of prevention and eradication against the competing needs of the Department as a whole. The amounts included in the President's Budget are the result of this consideration. In general, the budget proposes a reallocation of resources from programs that have achieved success (e.g., cotton pests and screwworm) and for those which progress in eradication is not deemed feasible (e.g., emerald ash borer), to those efforts where success in eradication may be feasible (e.g., Asian long-horned beetle, light brown apple moth, and the European grape vine moth (EGVM)).

Regarding your second question, we keep the Office of Management and Budget (OMB) apprised of the essential nature of these programs every time the need arises. Recently, we worked with OMB to release $16.9 million in emergency funding for efforts to survey and control EGVM. OMB's cooperation in releasing these funds demonstrates their appreciation of these programs.

EMERGENCY FUNDING

Mr. Kingston: Please provide for the Committee a complete list of all fiscal year 2008 through 2010 transfers from the CCC for the arrest and eradication of plant and animal pests and diseases, and those that have been requested, but not yet approved. For all transfers, note the amounts spent to date.

Response: The information is submitted for the record.

[The information follows:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE
COMMODITY CREDIT CORPORATION FUNDING
FOR ARREST AND ERADICATION OF PLANT AND ANIMAL PESTS AND DISEASES

($000)

Emergency	FY 2008	FY 2009	FY 2010	Total	Obligations
Asian Longhorned Beetle (ALB)	0	$24,533	$41,451	$65,984	$48,776
Cattle Fever Tick	$5,233	$4,894	0	10,127	9,601
Grasshopper	0	0	8,235	8,235	4,207
Light Brown Apple Moth	74,539	0	0	74,539	82,745*
Tuberculosis	22,928	0	0	22,928	53,675*
Subtotal	102,700	29,427	49,686	181,813	199,004
Funded Through Balances	-7,000	0	-16,070	-23,070	
Total Transfer From CCC	95,700	29,427	33,616	158,743	

*Includes obligations against carryover and account recoveries received in FY 2008 through 2010.

To date in FY 2011, $10.9 million has been transferred from CCC to APHIS for the arrest and eradication of the European Grapevine Moth. There are no other pending CCC requests at this time.

WEB-BASED SUPPLY CHAIN MANAGEMENT (WEBSCM) SYSTEM

Mr. Kingston: Does the legislative authority for the section 32 program prohibit the Department from using section 32 funds to replace systems that are used to manage and coordinate commodity orders, purchases and delivery? If so, please cite the specific authority that prohibits such use. If not, why doesn't the Department use section 32 funds to replace the antiquated system?

Response: AMS is authorized to use Section 32 funds for a replacement system to support commodity purchases. Of note, the FY 2010 agriculture appropriations act stated, "Funds available under section 32 of the Act of August 24, 1935 (7 U.S.C. 612c), shall be used only for commodity program expenses as authorized therein, and other related operating expenses, including $10,000,000 for replacement of a system to support commodity purchases, . . ."

In the FY 2012 budget, USDA has proposed to fund ongoing operations and maintenance of the new Web-based Supply Chain Management System from Section 32 to ensure a steady stream of funding for this system crucial to program delivery. The funding level requested for Commodity Purchase Services includes those costs.

Mr. Kingston: USDA developed the commodity management system called the Web-based Supply Chain Management system. Please provide a table showing the total amounts of program level funding for this system, with a specific breakout from Congressional appropriations as well as from the Section 32 account. Please provide a status report on this project, including a report of funding required for operations and maintenance as well as the benefits expected to be generated from this system.

Response: The information is submitted for the record.

[The information follows:]

WebSCM Funding
(Dollars in Millions)

	System Development		O&M	
Fiscal Year	Section 32	Other USDA Agencies	Section 32	Other USDA Agencies
Prior	$3.5	--	--	--
2006	*20.0	--	--	--
2007	*20.0	--	--	--
2008	*19.9	$1.7	--	--
2009	*20.0	2.1	--	--
2010	*9.0	4.9	*$1.0	$8.1
2011 est.	4.6	--	10.1	9.6
2012 est.	--	--	15.6	3.4

* Funding identified in annual appropriations bills

Note: Other USDA agencies in the above table are the Food and Nutrition Service and Farm Service Agency.

Status Report

As of December 1, 2010, all development is complete and WebSCM has entered a period of stabilization, operations, and maintenance.

The USDA is making system operations accessible by functional component, with PCIMS continuing to run concurrently. The phased-in implementation approach has greatly minimized the risk inherent in system conversion by enabling USDA to observe and correct issues that would have been much more difficult to manage with a full implementation at one time. The first phase of functionality was deployed on June 30, 2010, which included price support activities, the multi-food inventory & ordering program, and the DoD Fresh invoice and payment process. The second phase of functionality was deployed on December 1, 2010, which included the loading and access of state and recipient agency users whose primary function is to place USDA commodity orders. Six State Agencies and their recipients are currently creating catalogs and placing orders for USDA commodity products to be delivered July 2011 through June 2012.

The third phase of functionality, deployed February 1, 2011, provides commodity vendors and business partners with system access for bidding activities which will begin once all USDA commodity orders have been placed in WebSCM. The final phase of functionality will be deployed April 1, 2011, which includes all payment and other financial activities.

Funding

As of January, the Office of Management and Budget (OMB) has apportioned $14.774 million from Section 32 funds for WebSCM costs in FY 2011. Of these funds, $4.6 million was for the final development activities, which were completed in the first quarter of FY 2011. The remaining funds are for operations and maintenance activities in support of the new system. Pending FY 2011 budget decisions, AMS may have to request that additional Section 32 funds be apportioned this fiscal year for WebSCM operations and maintenance.

The FY 2012 budget proposes to continue funding operations and maintenance costs for this system from Section 32 monies at an annual cost of $14.5 million.

System Benefits

The WebSCM system is a modern, integrated Internet-based system used by USDA agencies and the U.S. Agency for International Development (USAID) for commodity acquisition, distribution, and monitoring. It replaces the 26+ year old Processed Commodity Inventory Management System (PCIMS) and a number of other supporting stovepipe systems within USDA.

WebSCM is designed to support multiple agencies' efforts and will improve the procurement, delivery, and management of more than 200 commodities and 4.5 million tons of food, through feeding programs, to targeted populations in the U.S. and abroad. Domestic nutrition assistance programs (e.g., Child Nutrition Programs) making use of commodities serve over 30 million Americans and are administered through 55 State Distributing Agencies (SDA) and 92 Indian Tribal Organizations (ITO). International aid programs serve over 280 million people in 60 countries and support the global UN World Food Program, with aid provided through 70 foreign governments and 30 private voluntary organizations (PVOs). It is expected that once all users are in the system, WebSCM will support over 40,000 users, including State and local agencies, school districts, cooperating sponsors (international recipients) and Governments, and other business partners, including commodity suppliers, transportation providers, and warehouses.

OFFICE OF INSPECTOR GENERAL

Mr. Kingston: The Office of the Inspector General is (OIG) responsible for conducting audits and investigations of USDA programs and their respective activities. Periodically, the IG issues findings of fraud, waste and abuse involving U.S. government resources managed by USDA. Inspector General Fong has stated on previous occasions that the IG's office is fully reliant upon the Office of the Secretary and the various USDA agencies to make the changes recommended to address program and management weaknesses and to enforce the laws and regulations associated with these findings.

Please provide the Committee the Department's interpretation of its obligation to implement IG recommendations. Please specifically comment on recommendations related to specific instances where the U.S. Attorney's office has taken formal action in response to an OIG investigation and/or audit.

When there is a disagreement between OIG and an agency, what role does the Office of the Secretary play?

Response: I am committed to resolving any potential findings of fraud, waste and abuse involving U.S. Government resources identified in OIG audits or investigations. I receive informational memoranda about the results of all OIG program and administrative audits, which include a copy of the audit report and agency management responses. USDA agency officials also work closely with the Office of the General Counsel to pursue criminal or civil actions against participants of USDA programs that potentially engaged in waste, fraud or abuse of government resources.

As required in USDA's Departmental Regulation 1720-001, Audit Follow-up and Final Action, agencies are required to reach agreement with OIG to implement audit recommendations within 6 months of audit issuance. If agreement is not reached within 90 days, both OIG and the agency will alert their respective senior officials of the differences and potential problems reaching agreement. If agreement is not reached within 120 days, OIG will prepare an Audit Decision Paper summarizing the disagreement for discussion with agency management. If agreement is not reached within 135 days, the Audit Decision Paper is elevated by OIG to the applicable Under or Assistant Secretary. If agreement is not reached within 150 days, the Audit Decision Paper will be elevated by OIG to the Deputy Secretary, who will render management decision.

QUESTIONS SUBMITTED BY CONGRESSMAN ROGERS

HORSE PROTECTION

Mr. Rogers: The Animal and Plant Health Inspection Service (APHIS) has recently promulgated a new Mandated Penalty Protocol. Horse Industry Organizations (HIOs) have been instructed to update their rulebooks to comply with new penalties or risk losing the Designated Qualified Person (DQP) program certification. The DQP program is an industry-led process, made up of individuals trained under USDA/APHIS guidelines and programs and certified by each organization, intended to provide the horse industry with a self-operated inspection service for itself in compliance with the Horse Protection Act.

If APHIS intends to revoke DQP programs within Horse Industry Organizations, does APHIS have an adequate number of inspectors to fill in where DQP programs are revoked?

Response: There are currently 12 Designated Qualified Persons (DQP) programs, with the potential that four will be revoked. The other eight would have enough DQP inspectors should show managers choose to contract with them. Therefore, APHIS does not anticipate a need for Agency inspectors to fill in where DQP programs are revoked.

Mr. Rogers: What is the anticipated cost for the Department to use APHIS inspectors to police the new protocol? Similarly, what other APHIS missions may be compromised in order for APHIS to adequately meet this potentially new inspection need?

Response: APHIS inspectors will not be used in place of the DQPs. APHIS will continue to monitor the DQP programs, as we have done in the past, and accordingly will not incur additional costs. The Agency's mission will not be compromised.

Mr. Rogers: What justification has APHIS employed to warrant a more heavy-handed penalty system? How does this new protocol project a more open, transparent APHIS inspection process?

Response: USDA's Office of Inspector General's (OIG) most recent audit report recommended that APHIS strengthen the horse protection program, including improving inspections of show horses, strengthening penalties for those who are found in violation, and improving controls so that violators that are suspended do not participate in shows. The OIG report concluded that previous efforts by APHIS and the DQP programs have failed to eliminate soring and that the DQP program as currently constituted and operated is ineffective.

APHIS began notifying HIOs as early as May 2010 that the new protocol should be added to 2011 rulebooks by the end of 2010. The agency wrote to the HIOs formally twice and engaged in numerous meetings and conversations with them over the past year in an attempt to reach an agreement on a protocol that all HIOs would adopt. Unfortunately, those efforts were not successful

The industry did not agree on an operating plan or develop a uniform penalty protocol in 2010, so USDA mandated the protocol for adoption by all Horse Industry Organizations (HIOs) for consistency, uniformity, and fairness in administering the HPA in 2011. The protocol allows for administering consistent HPA enforcement and serves to deter the inhumane practice of soring. We would note that the protocol provides for penalties that in most cases are substantially less than those allowed by the statute.

Mr. Rogers: Generally, new federal regulations are subjected to a rule-making process which gives experts and industry participants the opportunity for public comment on the proposal. In this case, it appears that APHIS notified HIOs in October that the new protocol should be added to 2011 rulebooks by the end of 2010.

By what process was the Mandated Penalty Protocol developed? Was it developed under a standard rule-making process?

Response: We did not use formal notice and comment rulemaking to develop the protocol because we believe that current regulations provide sufficient notice that the Department may establish appropriate penalties. We are now considering whether to enter into a formal comment period to coincide with the de-certification procedures.

The protocol for 2011 was based on those used in previous years, adjusted for the OIG report (which indicated that previous penalties had proved insufficient), rulings of Administrative Law Judges in previous formal cases, and input received from all stakeholders.

Mr. Rogers: How were representatives from the horse industry included in the development of this protocol? What time period was given to the industry for comment, and how were these comments used in developing the new protocol?

Response: On August 12, 2010, APHIS notified HIOs of the decision to make the Penalty Protocol mandatory, as well as the requirement that HIOs submit their revised rulebooks for approval no later than January 1, 2011. APHIS officials ensured that all HIOs were aware of this requirement as early as May 2010. APHIS has made every effort to discuss this issue with HIOs and assist them in the development of the Penalty Protocol. Among other things, APHIS hosts monthly conference calls that are open to industry stakeholders as a venue for voicing concerns and asking questions. An additional reminder letter was sent to all HIOs on October 15, 2010.

Mr. Rogers: In September 2010 a report from USDA's Office of Inspector General (OIG) recommended that APHIS replace the current DQP program with a direct inspection program. One month later, APHIS released the new mandated protocol which rightly validates the strength of the DQP program and the longstanding partnership between APHIS and the HIOs.

Please explain how the HIO's and DQP program are proving beneficial to APHIS inspection efforts.

Response: An effective HIO and DQP program can prove very beneficial by supplementing Federally-funded efforts. A vigorous and fairly administered industry self-regulation effort is essential if we are to prevent and deter the practice of soring. While the industry has made good strides over the years, the OIG report demonstrates that the self-regulation program needs substantial improvement.

Mr. Rogers: Moving forward, how does APHIS intend to work with horse industry organizations to modify and correct this new Mandated Penalty Protocol should practical constraints arise?

Response: If mitigating circumstances were to arise we would, as in the past, make every attempt to work with the industry to develop and implement penalties that could be applied uniformly. The Agency will be reviewing the effectiveness of the existing penalties for future years in the same manner that it has in the past. That is, APHIS will use the protocol from previous years, as well as input received from all stakeholders and rulings of

Administrative Law Judges to determine their effectiveness in the enforcement of the HPA.

Mr. Rogers: Please define what APHIS' longer term goals are for the DQP program.

Response: USDA is considering a proposed rule as we committed to do in our response to the OIG audit. While the details remain to be finalized, the general concept would be to place greater responsibility for licensing and training for the DQPs under Agency direction. We remain committed to industry self-regulation and an effective DQP program, but believe that change is necessary if we are to accomplish the charge the Congress gave in enacting the Horse Protection Act.

QUESTIONS SUBMITTED BY CONGRESSMAN DICKS

STRATEGIC WATERSHED ACTION TEAMS (SWATs)

Mr. Dicks: I have been a strong supporter of protecting our natural resources and our great waters for many years. In your testimony you mention the proposal to create strategic watershed teams to target technical assistance to priority watersheds. The idea, as I understand it, is to focus efforts on particular areas to address the many diverse problems that may be negatively affecting an area.

Can you tell us more about the vision behind this and how you envision the program working? How will these watersheds be chosen? What factors will you consider in choosing them?

Response: Strategic Watershed Action Teams (SWATs) would be deployed to high priority watersheds and landscapes to focus assistance to more effectively address resource concerns. The SWATs would consist of a team of five to seven conservation professionals for deployed periods of three to five years to address specific needs in high-priority landscapes. SWATs will provide significant planning, program implementation, and outreach in targeted areas, ensuring that NRCS programs are strategically implemented and effectively integrated on private lands. The requested increase of $15 million for SWAT funding will be used to leverage partner funds to further collaborative conservation efforts in the targeted landscapes.

NRCS will coordinate with the U.S. Forest Service and other stakeholders and partners to identify high-priority watersheds in order to enhance conservation on a landscape scale across land ownerships. Smaller critical watersheds within these high-priority watersheds would be identified for the deployment of SWAT based on an analysis of areas with the greatest conservation need and potential for landscape-scale benefits, using natural resource and socioeconomic data factors including:

- Conservation Effects Assessment Project (CEAP) data;
- State-level natural resource data;
- State-level strategic conservation and land management priorities; and
- Other information and priorities identified trough the NRCS State Technical Committees in cooperation with other Federal, State, and private partners.

It is anticipated that SWATs will enhance the Agency's capability to strategically invest in conservation and better target the Agency's financial and technical assistance programs where they can have the greatest impact. In regions of the country where NRCS and conservation partners have provided targeted technical assistance to conduct outreach, the agency has seen improved participation in its programs and improved performance.

FORMULA FUNDS

Mr. Dicks: We are very disappointed that the proposed budget will reduce Hatch, McIntire-Stennis, Animal Health and Disease, and Smith-Lever Formula funds by $30,025,000. Washington State University's and University of Washington's portion of these formula funds are used to invest in faculty and staff personnel who constitute important components of our scientific capacity to be competitive for research and extension programs funded by all sources of funds. There are many less important line item programs within the National Institute of Food and Agriculture (NIFA) that could be eliminated so that these critical capacity funds will continue to flow to the land grant universities.

Why were less critical programs preserved while these foundational partnership funds, which are leveraged by state and other funds many times over, are slated for reductions?

Response: While the Administration appreciates the important work that is performed by the institutions that receive formula funding, the reality is that we are living in a time of constrained resources, in which difficult decisions on program allocations and priorities must be made. In that context, this budget is consistent with the Administration's belief that the most effective use of taxpayers' dollars is through competitive programs that attract the most qualified scientists across the country, including those at land grant institutions, to address national issues of high priority.

AGRICULTURE RESEARCH AND BIOMASS

Mr. Dicks: Can you articulate your long-term vision or plan for investing in agriculture research in the US to maintain our position as a global leader in food production? And what is your plan for investing in agriculture research to position our nation to be international leaders in biomass production involving both existing crops and the development of new crops that will lead to next gen biofuels?

Response: USDA's strong intramural and extramural research programs will continue to play a major role in maintaining the Nation's position as a global leader in food production. Federally supported research has a long history of supporting scientific discoveries in the agricultural sciences that have led to increases in productivity and disease resistance in crops and food animals and other challenges to the food production system. The proposed budget will extend that record of achievement, even as necessary cuts are made in lower priority projects.

Some of this work is done through five regional Biomass Research Centers that focus research on feedstocks from both existing and new energy crops that are suited to the growing conditions of each region. The centers are networks of Agricultural Research Service (ARS) and Forest Service Research and Development (FS) scientists at existing facilities across the country, and did not require new buildings or the transfer of personnel. The purpose of this USDA-led effort is to conduct research to overcome challenges to ensuring that dependable supplies of needed feedstocks are available for the production of advanced biofuels to meet legislated goals and market demand, and to enable as many rural areas across the country as possible to participate and economically benefit. The President's 2012 budget proposal asks for an additional $6 million for ARS to increase support for the USDA Biomass Research Centers.

QUESTIONS SUBMITTED BY CONGRESSWOMAN EMERSON

FORESTRY INITIATIVES

Ms. Emerson: Many of my colleagues and I have expressed concern to the U.S. Green Building Council regarding their Leadership in Energy and Environmental Design (LEED) rating system. USDA, along with DOD and GSA, have LEED preference policies. I am concerned that the LEED rating system wood credit does not recognize two of the largest sustainable forest certification programs in the United States the Sustainable Forestry Initiative (SF) and the American Tree Farm System (AFTS) and recognizes only Forest Stewardship Council (FSC). This policy discourages many builders seeking LEED certification from using third-party certified SFI and ATFS products grown here in the United States. Can you provide what actions, if any, you are taking to address the Department policies on this issue to ensure they better reflect the best interests of rural communities, rural jobs and our natural resources?

Response: The Department of Agriculture's (USDA) Forest Service is promoting the use of domestically grown wood and is working with industry, government, and academic representatives in the Green Opportunity task group formed from the USDA Forest Products Lab Coalition for Advanced Wood Structures. The Forest Service is working with the aforementioned representatives to build a stronger competitive position that better leverages green building opportunities for the wood industry.

In light of the concerns around the use of wood that you and others have raised, I am working to find ways to modify Departmental policy and direction concerning LEED, and to improve recognition of the lifecycle contributions presented by a U.S. sustainable wood building and forest products industry. My goal is to increase the use of sustainably grown, domestically produced wood products, including wood from the National Forests.

QUESTIONS SUBMITTED BY CONGRESSWOMAN DELAURO

FOOD SAFETY

Ms. DeLauro: Last year, USDA requested an $18 million increase above FY 2010 levels for the Food Safety and Inspection Service (FSIS) to support initiatives to improve public health infrastructure, speed up investigations and response to outbreaks, conduct a baseline study on the prevalence of pathogens, and expand sampling. However, now it appears that you may see another $88 million cut over the remainder of the year if the current appropriations bill becomes law.

- How would FSIS implement this reduction in funds, how would it impact food safety?

- Because of the continuous inspection requirements in the Federal Meat Inspection, Poultry Products Inspection, and Egg Products Inspection Acts, what would be the implications of those cuts? How many inspectors would have to be furloughed? How many chickens and beef carcasses would be destroyed because they would go uninspected?

Response: Last week the Senate voted on the House passed version of H.R. 1 and the Senate version of the bill that would have funded the government for the remainder of the year. As you know, neither proposal had sufficient support to pass the Senate. This is an indication of the difficult decisions under consideration. The Administration has made it clear it is willing to support a reasonable compromise that makes targeted investments while cutting spending in a measured way that will help us reduce the deficit. This assumes that we will be provided enough time to properly manage the implementation of any reductions that ultimately result from these decisions.

In the case of FSIS, it is important to note that 85% of the FSIS budget is for personnel, so a reduction of the magnitude contemplated by H.R. 1 would likely have an effect on the FSIS workforce. Since October 1, 2010, the Agency has undertaken a review of all spending and made significant progress in reprioritizing non-essential travel, operating, and staffing to support core mission requirements. These re-prioritizations were necessary to provide adequate funding for pay cost increases (those merit promotion and within-grade-increases) and unfunded benefit increases, such as rising health care costs and an increasing number of FERS employees. As part of the FY 2012 budget process, FSIS has also identified several proposals that are part of the 2012 budget that will make FSIS more efficient. However, if FSIS were to be reduced to FY 2008 levels with five or six months left in the fiscal year, it would be difficult to avoid impacting the FSIS workforce.

FSIS BUDGET

Ms. DeLauro: The President's Working Group for Food Safety recommended increased sampling and funding for additional baseline studies of the prevalence of pathogens in food products, and you proposed funding for that purpose in both the FY 2011 and FY 2012 budgets. However, your request for this in FY 2012 is approximately $4 million less.

What is different between the FY 2011 and FY 2012 proposals? Are you proposing a less robust program of sampling and study in light of pressure to cut spending?

Response: FSIS is making improvements to the sampling program and developing methods for increased efficiencies and methodologies of sampling. Under both the FY 2011 and FY 2012 proposals, FSIS would expand sampling. The difference between the FY 2011 and FY 2012 request in part reflects savings expected from increased efficiencies and reduced investment in laboratory space. The funding for conducting an additional baseline study remains the same. FSIS expects the proposed level of funding in FY 2012 to allow for improved accuracy and timeliness of prevalence estimates for pathogens in food products.

Ms. DeLauro: If you do receive an $88 million reduction like that proposed by the House Republicans, will that result in less sampling and less data gathering to identify risks to public safety from contaminated meat and poultry products?

Response: The Agency does not anticipate changing its regulatory requirements and activities, and will seek to minimize any effect on the enforcement of its regulatory responsibilities.

Ms. DeLauro: The FY 2012 budget estimates savings of $34 million from restructuring, eliminating positions, and introducing efficiencies.

If FSIS inspectors do not show up, slaughterhouses and meat plants legally are not able to operate. What positions are you proposing to eliminate and how does that affect daily and continuous plant inspections?

Response: The FY 2012 budget includes a proposal to restructure and eliminate positions, but it does not include the frontline inspection workforce, and will therefore not affect daily and continuous plant inspections. FSIS workforce analyses have identified savings in non front line personnel staff years that can be achieved by improving supervisory span of control, managing reduced workloads, and/or eliminating senior-level analyst positions that are no longer required as the agency's programs evolve.

Under the proposed cut to FSIS in HR 1, restructuring or eliminating frontline personnel positions may need to be considered.

Ms. DeLauro: When FSIS inspection is inadequate we get scandals like the Westland/Hallmark Beef debacle in 2008. What safeguards on the proposed savings are in place to ensure that they do not result in another inspection failure like that?

Response: Planned staffing reductions in the FY 2012 budget will not impact frontline personnel. FSIS will continue to perform humane handling enforcement activities at all slaughter plants. Under any staffing reductions instituted as a result of the proposed cut to FSIS in HR 1, the Agency does not anticipate changing its regulatory requirements and activities, and will seek to minimize any effect on the enforcement of its regulatory responsibilities.

SINGLE FOOD SAFETY AGENCY

Ms. DeLauro: The Government Accountability Office (GAO) released a report on the day of the hearing that highlighted the overlapping and duplicative process that costs taxpayers billions of dollars each year.

One of the areas referenced in the report is food safety where 15 different agencies have some oversight jurisdiction over food safety laws. The GAO report failed to specify a cost-saving figure on the spending overlap for food safety.

How much savings do you think could be captured if there was a single food safety agency?

Response: The amount of savings that could be achieved by creating a single food safety agency, if there are any, depends on how such an agency is defined under the law, and is therefore difficult to estimate. Factors influencing the size of the savings achieved include - but aren't limited to - any changes to the regulatory requirements under the new agency compared to FSIS, and additional costs to facilitate a transition. Food safety and public health must remain our top priority; a single safe food agency shouldn't be pursued at the expense of those goals.

CHINESE POULTRY

Ms. DeLauro: I wanted to highlight to you some recent reports about the food safety system in China.

First of all, a recent survey of the Chinese public found that almost 70 percent are not confident about the safety of their country's food supply. More than half of the survey's respondents said government management and surveillance should be further improved to properly protect people from unsafe food. Furthermore, consumers also indicated that they remain especially concerned about certain foods, such as pickled vegetables, canned food, dairy products, and fresh meat and meat products. Contaminated meat products was one of the items that topped the respondents' lists of the top threats to food safety.

There is another report that stated that many Chinese are pursuing their own food safety measures by growing their own vegetables. They are concerned that there is widespread application of pesticides and fertilizers in the conventional agriculture industry, and antibiotics and hormones are widely used in raising livestock.

If this were not enough, I think we have all seen the reports where China has sentenced a food safety activist for 2.5 years for organizing parents whose children were sickened in the 2008 Chinese milk scandal.

In USDA's third progress report on China's request for equivalency to export processed and slaughtered poultry to the U.S., you mentioned that, in an audit conducted by FSIS in China from December 1-21, 2010, FSIS visited six establishments (three slaughter facilities and three processing facilities).

In conducting these audits and analyzing the results, does FSIS factor in things like these reports I just outlined? When will those audits be posted on the FSIS website?

Response: FSIS does not incorporate such public survey information into its equivalence analysis process because of the unscientific nature of such data, findings, and conclusions, although the Agency does maintain a general awareness of such information from third party sources. Ultimately, FSIS' approach to a food safety system audit relies on a verifiable scientific, data driven analysis of the government's handling of food safety issues.

Once the two China audit reports (slaughter and processing) are finalized they will be posted on the FSIS website no later than 30 days from the date they are finalized, in accordance with the 30-day requirement stipulated in the FY 2010 Agriculture Appropriations Act (P.L. 111-80).

Ms. DeLauro: Did the Chinese government provide you with the list of the six facilities that were visited by FSIS? Would these six facilities be eligible to export poultry products to the U.S. if there is an equivalency determination?

Response: Yes. The six establishments audited by FSIS were part of a larger list of establishments put forward by the Chinese government to be audited. Once China is deemed equivalent and, therefore, is eligible to export poultry (slaughter and processing) products to the United States, the next step would be for the Chinese government to certify to FSIS those establishments that fully meet the FSIS requirements.

Ms. DeLauro: Does the Department expect China to export processed poultry products under the conditions of the April 24, 2006 rule whereby the Chinese could only export processed poultry from approved sources as designated by FSIS?

Response: While we can't predict what China would decide to do, if FSIS determines that only China's processed poultry inspection system is equivalent, then the conditions of the April 24, 2006 rule would stand.

Ms. DeLauro: It is my understanding that allowing China to export products from a slaughtering facility would require a separate rule. When do you expect the proposed slaughter rule to be published by FSIS in the Federal Register for public comment?

Response: A projected publication date of November 2011 was published for this proposal in the Fall 2010 Unified Agenda of Regulatory and Deregulatory Actions.

Ms. DeLauro: Has USDA calculated how the U.S. poultry industry would be impacted if we allowed for increased poultry exports from China?

Response: As part of the rulemaking process, FSIS will conduct an economic analysis to determine the impact that China poultry exports would have on the U.S. poultry industry.

REGULATIONS GOVERNING POULTRY IMPORTS

Ms. DeLauro: On January 24, 2011, APHIS published an interim rule in the Federal Register that changed APHIS policy on the importation of poultry products from countries that have experienced outbreaks of avian influenza. It was because of APHIS' concerns with the avian influenza outbreaks in the People's Republic of China that limited the scope of the April 24, 2006 FSIS rule to permit the importation of processed poultry products only if the source of the raw poultry came from either the U.S. or Canada.

The APHIS interim rule now permits certain countries that have experienced outbreaks of avian influenza in their poultry flocks - and China is include on that list - to export poultry products to the U.S. under certain conditions.

Can you tell us why USDA has changed its position from the one taken in 2006?

Response: The interim rule is not a reversal of previous policy. China is currently suspended by the Food Safety and Inspection Service (FSIS), so this rule will not alter China's ability to export poultry products for human consumption to the United States.

APHIS regulations previously permitted processed (cooked, cured, etc.) carcasses and certain eggs to enter under an import permit as long as strict mitigations were taken to prevent incursions of highly pathogenic avian influenza (HPAI) subtype H5N1.

The January 2011 interim final rule specifies the internal temperature to ensure that the cooking of the carcass is sufficient to inactivate the viruses of interest. Previously, the mitigations applied only to the H5N1 subtype of HPAI. Under the interim rule, mitigations are required for all subtypes of HPAI. Also under the interim rule, we are moving away from import permits by allowing the exporting country to certify that mitigations were taken in their export certification statements. APHIS has the ability to validate what is certified through on-site inspection.

Ms. DeLauro: It was also interesting that the publication of the interim rule occurred right after the visit by Chinese President Hu Jintao to Washington. Was that a coincidence or was some sort of understanding reached while he was here that such a rule would be published?

Response: The timing of the publication of the interim rule and the visit by the Chinese President Hu Jintao was coincidental. As is the case with all of our sanitary and phytosanitary rules, the action is science-based.

WOMEN FARMERS

Ms. Delauro: USDA and DOJ announced the establishment of a process that would resolve the claims of women and Hispanic farmers alleging discrimination by USDA when seeking farm loans.

While I applaud this move to resolve the claims, I have some concerns about the process that was established. It would seem to me that by offering the same total amount of funds as other discrimination case settlements (Pigford and Keepseagle) but spread out amongst a significantly larger number of farmers, not all women farmers will be adequately reimbursed for the losses they incurred from the years of discriminatory practices by USDA. I think it is important that parity should be maintained, and women and Hispanic farmers should be treated in the same manner as other discrimination cases.

- Can you clarify how the process will work and how USDA will ensure that women and Hispanic farmers receive equal treatment?

- Can you summarize some of the outreach efforts that USDA will do to ensure that all women farmers receive notice that this process is underway?

Response: Under our plan, the United States would make available at least $1.33 billion from the Judgment Fund, plus $160 million in debt relief, to implement a unified non-judicial claims resolution process for Hispanic and/or women farmers and ranchers. Under this settlement, claimants can be awarded damages under one of two tiers.

Hispanic and/or women farmers and ranchers who submit claims of discrimination in farm loan programs will go through a streamlined process to have their claims resolved. These claimants will be eligible for up to $50,000 in damages. Tax relief will be paid to the Internal Revenue Service on behalf of each successful claimant at the fixed rate of 25 percent of the cash award issued by the Adjudicator, and 25 percent of the outstanding principal amount of any debt relief provided by the USDA. The amount of the awards provided will depend upon the extent of the proof of discrimination provided by claimants and the number of claims awarded under Tier II. As these groups of claimants were not certified as a class, all claimants retain the right to pursue a legal resolution to their claims if they are not satisfied with the settlement offered.

This claims program is available to Hispanic farmers who farmed, or attempted to farm between January 1, 1981 and December 31, 1996 or between October 13, 1998 and October 13, 2000, as well as women farmers who farmed, or attempted to farm, between January 1, 1981 and December 31, 1996, or between October 19, 1998, and October 19, 2000.

As part of this claims process, USDA will conduct extensive outreach and notice efforts to Hispanic and/or women farmer communities so that all eligible farmers and ranchers learn about this option and are provided an opportunity to participate. These outreach efforts will be done through the local media, through outreach efforts to stakeholder organizations, and public meetings. USDA has also established a Web site (www.farmerclaims.gov) and a call center to help address questions related to the settlement.

PUBLIC HEALTH INFORMATION SYSTEM (PHIS)

Ms. DeLauro: USDA is requesting an increase of $3.6 million for increased costs associated with the implementation of PHIS. USDA believes that PHIS will move the agency from manually collecting and combining data to Web-based applications that take full advantage of improved broadband capabilities and near real-time data collection and reporting.

As you move forward with this system, what kind of response have you received from NAS (National Academy of Sciences)? Has NAS given any indication that FSIS is proceeding in the appropriate direction with PHIS?

Response: In 2009, NAS provided recommendations on how FSIS could improve its approach to data driven inspection and FSIS committed to adopting all of those recommendations. In April, 2010, FSIS provided a briefing to NAS on how the agency had revised its approach based on the recommendations made. The feedback from that briefing was positive and supportive of the changes FSIS had made. In September of 2010, FSIS provided two detailed reports to NAS. In one report, the FSIS Strategic Data Analysis Plan, FSIS describes the data limitations of the current systems, how those data needs would be addressed and how PHIS supports these needs. In the second report, the FSIS Public Health Decision Criteria Report, FSIS describes its public health decision criteria including their scientific basis and how they are calculated and applied.

Ms. DeLauro: Is the reporting on compliance with inspection procedures going to change? Since PHIS will be able to track violations of procedures more easily, will future FSIS reports on compliance be more accurate?

Response: The regulatory inspection that FSIS performs will not change under PHIS. What will change is how those findings are recorded. Under the previous system, only non-compliant regulations were documented. In PHIS, inspection findings will include information about regulations verified that were compliant and non-compliant. Since inspectors are required to note the regulations that apply every time, we expect to have more accurate data about the regulations verified with each inspection task.

Ms. DeLauro: How much money has the agency expended to implement PHIS?

Response: $32,899,304 (includes FY 2011 estimate). The total reflects both system development and implementation costs.

Ms. DeLauro: What is the quality control being used to ensure that the data used in PHIS is accurate?

Response: There are several levels of quality control built into FSIS' inspection activities. The system logs information about who entered data and when it was entered, which helps to identify the right points of contact when following up on quality control issues. PHIS makes greater use of controlled vocabularies and other structured data entry techniques which ensures that the inspector is entering information in a consistent and quantitative manner. PHIS also has reporting functionality that is greater than in previous systems. Reports in PHIS enable a supervisor or analyst to review data entered into the system. If that supervisor or analyst identifies unusual information, they can work with the districts and inspection staff to determine the cause and proper corrective steps if needed. Finally, PHIS has the ability to utilize outlier detection methods developed by data analysts to flag information for further evaluation. These automated checks scan the data and can provide alerts or reports to staff as needed. For example, an analyst could establish typical ranges for animal weights and scan for slaughter data that lie beyond those ranges.

Ms. DeLauro: How long do you anticipate before inspectors are proficient in using this new system? How extensive is the training going to be?

Response: FSIS will begin training inspection program personnel on March 14, 2011. The Agency will be conducting three training sessions at a time, which will begin on March 14, 2011, and run through the fall of 2011. The majority of the employees who will need the training are field inspectors, field supervisors, Public Health Veterinarians, and Enforcement, Investigations, and Analysis Officers, making up a total of 4,500 employees.

The course will take place over two weeks, and will include click-by-click training on how to enter data into PHIS screens, and a refresher on the Agency's public health policies. Upon completion of the two week training course, FSIS inspection program personnel will be equipped with the necessary knowledge to begin using the system.

ANIMAL TRACEABILITY

Ms. DeLauro: Funding for the Animal and Plant Health Inspection Service (APHIS) is reduced by $72 million in the budget request. However, while the budget would eliminate funding for a number of activities, it includes several notable increases, including $9 million for the animal identification program.

After receiving more than $145 million for the national animal identification system, the Agency announced a drastic change in both the direction of the program and the details of the program. In light of that announcement, we are now talking about the Animal Disease Traceability program.

Rather than a strong national program the Agency has instead opted to pursue a fragmented system with negotiable standards that applies only to some animals moving across state lines. And this budget requests more than $14 million - an increase of nearly $9 million - for the program.

A strong, national animal identification program is necessary and has tremendous value in ensuring the safety and competitiveness of U.S. industries.

How can we support the Agency's new plan when both its path and destination are so inadequately defined?

Response: On February 5, 2010, USDA announced a fundamental change in the Department's approach to animal disease traceability. Under the new approach, identification, with limited exception, will be mandatory for interstate movement.

As a result of focusing on interstate movement of animals, each State and Tribal Nation will be able to determine the specific approaches and solutions to meet basic animal disease traceability performance measures based on the needs of their local producers. This new framework will allow us to have an adaptable approach that will help us find disease, quickly address it, and minimize harm to producers.

While the technical specifications remain to be determined, we believe that our destination is clear: a system that dramatically accelerates how quickly we and our State and industry colleagues can trace infected animals through the journey they took all the way back to their origin. The new approach will allow States and Tribal Nations the flexibility to use methods and systems that best suit the needs of their producers while adhering to the ultimate goal. The implementation of this approach will be conducted in a transparent manner through the Federal rulemaking process. We do not want to preempt that process by imposing any pre-conceived standards. However, we know that the standards must address timeframes for four traceability activities: notifying the State or Tribe where the animal was identified of the animal's identification number, confirming the identification number, notifying the ship-from State or Tribe, and determining the ship-from premises.

In developing the new approach, we worked to address stakeholders' concerns. We have revamped our advisory committee devoted to animal health and collected stakeholder input through a variety of means. Changes from the previous system, such as focusing on interstate movement of animals, reflect our attempt to address concerns.

Ms. Delauro: How has the agency worked to define outcomes and paths to achieving them to ensure the success of this program? Are we still moving towards a system that enables traceback of any livestock species in 2 days? Will all beef and dairy cattle be included in this program?

Response: We have revamped our advisory committee devoted to animal health and collecting stakeholder input through a variety of means. We will use the input from the advisory committee and other stakeholders regarding implementation of priorities to guide our spending of funds in FY 2011 and FY 2012. Over the last year or so, we have reached out to groups impacted by the previous program (The National Animal Identification System). In developing the new approach, we worked to address stakeholders' concerns. For example, by focusing on interstate movement of animals, each State and Tribal Nation will be able to determine the specific approaches and solutions to meet basic animal disease traceability performance measures based on the needs of their local producers. We believe this approach will lead to success of this program.

We are confident that this new program, through its regulatory requirements for official identification and movement documentation of livestock moved interstate, will be successful and that the States and Tribes will be able to achieve the traceability performance standards that will be established. Our plans should reduce traceability efforts that currently take a number of months down to a matter of weeks, possibly a matter of days.

The Animal Traceability program requires cattle that are transported interstate meet the traceability standards. USDA is working with representatives from all livestock species to develop the new approach for traceability. The challenges of the cattle industry are far greater than any other species due to extreme diversification across the country, from producers with a few acres and a small number of cattle to the vast western States where extremely large herds that graze on thousands of acres. Cattle ownership and location of an animal can change many times as the animal matures. These create real challenges for effective traceability. No one species or single section of the cattle industry will dictate the direction of animal disease traceability.

FOOD FOR PEACE/MCGOVERN DOLE

Ms. DeLauro: The budget maintains funding for the Food for Peace, P.L. 480, Title II program at the FY 2010 level ($1.69 billion), but trims the McGovern-Dole program from $209.5 million in 2010 to $200.5 million.

However, the House CR proposal cut Food for Peace by $687 million and McGovern-Dole by $109 million. Given these proposed cuts, and given the fact that world food prices are increasing dramatically again, can you outline what kind of impact this would have on not only world hunger, but our national security efforts?

Response: The Administration is concerned about the proposed cuts in these food assistance programs. The cuts represent about 40 percent of the funding that was available to the programs in FY 2010. If the cuts are enacted, combined with continued price increases, the Administration will have fewer resources to assist in emergency food situations and improve the plight of the nearly one billion people throughout the world who suffer from chronic hunger. Further, if McGovern-Dole funding were decreased to $100 million, this program would feed roughly 1.5 million fewer women and children.

Regarding the specific impacts on national security, we note the concerns of Secretary of State Clinton in her February letter to the House Appropriations Committee, in which she stated that cuts in the foreign operations and humanitarian assistance accounts would "be devastating to our national security" and "damage our leadership around the world."

QUESTIONS SUBMITTED BY CONGRESSMAN BISHOP

FARM SERVICE AGENCY (FSA)

Mr. Bishop: As you know, the FSA supports the delivery of farm credit, disaster assistance, our commodity programs, as well as USDA's conservation programs. In a word, FSA has become a "life-line" for our small farmers in so many ways, particularly in terms of operating, conservation and ownership loans.

Today I wanted to get your input on the recently proposed reductions in the FSA's FY11 budget, as contained in H.R. 1, the recently passed [full year] Continuing Resolution. The CR proposes to reduce the FSA's discretionary budget by $311.8 million or 15% below the FY11 request of $2.08 billion.

I'm hearing that our local FSA Offices have been facing a number of planning and operational challenges, given the uncertainty of their funding for the full year. According to the State Office, Georgia currently has 22 direct Farm Ownership loans totaling $4.26 million which are approved and pending until funding is released from Washington. Additionally, there are 16 direct Operating Loans totaling $1.78 million approved and pending as well.

I'd like to get your perspective on what impact this particular reduction might have on FSA programs and operations? Will we be looking at closing local FSA offices, reducing personnel, or will these reductions also impact actual program funding and assistance [or all of the above]?

Response: We have taken aggressive action to reduce administrative expenditures and operate within FSA's available funding. The agency has undertaken a review of all spending and made significant progress in reprioritizing non-essential travel, operating, and staffing to support core mission requirements. These re-prioritizations were necessary to provide adequate funding for pay cost increases associated with merit promotions and within-grade increases; and unfunded benefit increases, such as rising health care costs and an increasing number of FERS employees.

To operate within the budget constraints of H.R. 1, there would be reductions $190 million from the FY 2010 enacted level in FSA operations, most of which would impact critical IT operations and modernization efforts, including the National Agricultural Imagery Program, MIDAS -- Modernize and Innovate Delivery of Agricultural Systems, and essential IT operations that support program delivery. In addition, FSA would be forced to absorb the remaining reduction through the workforce. Human capital is our greatest resource and FSA would be required to curtail employment of the part-time workforce at state offices and look at other workforce management options.

The proposed funding for the Agricultural Credit Insurance Fund zeroes out the direct and guaranteed conservation loan programs established by the 2008 Farm Bill. These programs provide an important mechanism to facilitate implementation of conservation practices, particularly by small and beginning farmers who often lack the up-front resources to begin these valuable practices. In addition, funds have already been obligated in the direct conservation program. Zeroing out this program would require the Agency to move subsidy from another loan program in order to meet the funding constraints on the program as a whole.

FSA LEADERSHIP

Mr. Bishop: It is my understanding that the Administrator of the FSA recently left the Administration as well as the Deputy. What impact, if any is this having on the Agency's ability to deliver its programs, and when do you expect to see these positions being filled?

Response: Since the beginning of the year FSA has lost two members of its leadership team - Administrator Jonathan Coppess on Feb. 25 and Director of External Affairs Mark Palmer on Jan. 14. All other Deputy Administrators and members of the senior leadership team continue to serve within FSA.

These two extraordinary staff members were dedicated to their work and were a great asset to FSA. They also worked hard in their last weeks to carry out an effective transition to interim staff - including Acting Administrator Val Dolcini, who previously served as State Executive Director in California, and a veteran career incumbent as Acting Director of External Affairs. Therefore the Agency has carried on normal operations and there has been no negative impact on its ability to deliver programs.

USDA's leadership is working closely with the White House to fill these open positions with dedicated leaders who are knowledgeable of FSA and its programs. We anticipate both of these positions will be permanently filled in the coming weeks.

IMPACT OF THE CONTINUING RESOLUTION

Mr. Bishop: Two weeks ago, the House of Representatives passed a Continuing Resolution (CR) for the remainder of the fiscal year, which if signed into law, would make severe cuts to programs that fund conservation, rural development and innovative research programs around the County and the State of Georgia, which have created jobs and strengthened our agriculture sector. The reductions in agriculture programs contained in the bill were second only to transportation and infrastructure programs in size and totaled some $5.2 billion, 22% less than 2010 levels.

What is the Administration's position on the reductions contained in the year-long CR and what is the Department's plan should a sizeable portion of the proposed cuts become law?

Response: The Administration is committed to cutting spending and reducing the deficit so that current government spending does not add to the debt. However, the Administration does not support deep cuts that would sharply undermine core government functions and investments key to economic growth and job creation. The impact of the proposed cuts in the year-long continuing resolution would have varying impacts for USDA's mission areas. For those mission areas where costs are primarily personnel, the cuts would be difficult to implement without adversely impacting employees, which would impact timely program delivery. Such actions would be expected to have substantial impacts on program delivery for agencies that rely heavily on personnel, such as food safety. Other areas would be affected by reductions in programs that invest in research, farm and rural economic development, nutrition assistance, and conservation, which are needed to help us grow the economy.

The Department, however, will be challenged to absorb any significant funding reductions in a short period of time as it limits the tools that are available to manage reductions in a way that will not harm our farmers, our ranchers, our growers, and our small towns. The Department continues to look for ways in which we can do a better job of using taxpayer resources to more efficiently and more effectively run the Department. We're examining process improvements so that we can do more with less.

REDISTRIBUTION OF EARMARK FUNDING

Mr. Bishop: As you know, rural communities, agriculture related not-for profits, universities and others have had a tradition of being funded through the Congressional earmark process. Whether you support earmarks or not, they have literally become a way of life in the Agriculture community and has become a staple in the Department's budget process for literally several decades.

What is the Department's "transition" plan for both FY 2011 and FY 2012, particularly for those projects which are consistent with Department or Agency programmatic goals and objectives?

Response: The Department will continue to award projects on a competitive basis to address agricultural research, the health of animal and plant resources, and conservation. The Department will use the review process to prioritize projects based on national interest. The Department can also redirect some program funds to address issues that arise in particular parts of the country.

Mr. Bishop: During FY2007, the last time earmarks were temporarily suspended, major land grant universities were the major benefactors in the redistribution of previously earmarked funding. While I'm a major supporter of the University of Georgia, and the research performed by major Land Grant schools, how can we make sure that all colleges and universities, especially our HBCU's, benefit in any redistribution of funding?

Response: The Department's budget has proposed elimination of earmarked funds. Since the most effective use of taxpayer dollars is through competitive peer-reviewed programs, the budget proposes to increase funding for competitive grants through the Agriculture and Food Research Initiative (AFRI) for which 1890 land-grant institutions are eligible. This program has wide eligibility and is already accessible to non-land-grant institutions; in fact, these institutions are part of the growing group of institutions that are seeking funding from AFRI. These additional resources would permit the National Institute of Food and Agriculture to make a greater number of awards and potentially reach a wider array of applicants.

The budget does reflect the Administration's policy to maintain funding for programs supporting 1890 land-grant institutions at historic levels, as well as requesting funds for the 1994 Native American Institutions and the Hispanic Serving Institutions.

ADMINISTRATIVE CLAIMS

Mr. Bishop: As you know, the Senate was unable to complete and approve legislation which would provide the necessary authority to deal with the Administrative Claims issue which has now been a major issue at the Department for some time.

What is the Department's plan with respect to Administrative Claims and does it propose to submit proposed legislation to Congress to resolve this important issue?

Response: The Department has included $40 million in the 2012 budget to settle statute of limitation (SOL) Administrative Claims. The Department will submit legislation to Congress that would extend the SOL on Administrative Claims filed January 1, 1998 through October 1, 2009. Authorization for debt forgiveness up to $60 million will be included in this legislation to Congress. The Department is estimating up to 600 Administrative Claims that will need to be settled.

PIGFORD FRAUD

Mr. Bishop: As you know the legislation Congress approved last year funding the Pigford settlement included several anti-fraud provisions, including:

Approval of Neutrals - Which requires the appointment of Neutrals who are charged with reviewing claims to be approved by the Court, USDA, and the Attorney General.

Additional Documentation - Which authorizes each Neutral to require claimants to provide additional documentation where necessary or helpful to a decision on the merits of the claim, or where there is a suspicion of fraud.

Attorney Certification - Attorney's filing a claim on behalf of a claimant are required to swear, under penalty of perjury, that to the best of the attorney's knowledge, information and belief after reasonable inquiry, the claim is supported by existing law and the factual contentions have evidentiary support.

Transparency in Claims Determinations and the Distribution of Settlement Funds - In order to ensure transparency in the administration of claims, the Claims Administrator will be required to provide to the Secretary of USDA, the Inspector General of USDA, the Attorney General, and Lead Class Counsel all information regarding claim determinations and the distribution of settlement funds.

Reports - Requires the Comptroller General (GAO) evaluate, and report at least twice during the claims process on, the internal controls created to carry out the Settlement Agreement. The Inspector General of USDA is required, within 180 days of the initial adjudication of claims, to conduct a performance audit and to provide that audit to the Secretary of USDA and to the Attorney General.

Mr. Secretary, there has been a significant amount of attention given to the fraud issue in the past few months. Can you share with the Subcommittee the Administration's plans regarding the implementation of these and other anti-fraud provisions and how are we communicating with the public regarding the entire Pigford claim process and how it works?

Response: The Department has given significant attention to the fraud issues in the past few months. The implementation of Pigford II will not be done by USDA. The court System has overall authority for the implementation. The Department has developed a informational flyer that outlines the requirements for Pigford II filers. The Office of Advocacy and Outreach working in collaboration with field based agencies and stakeholder groups will conduct outreach to inform Black Farmers of the Pigford II requirements.

TOMATOES

Mr. Bishop: Mr. Secretary, the tomato farmers in South Georgia and northern Florida are still reeling from the FDA's tomato salmonella recall debacle from a couple years ago. As you'll recall, in Georgia alone, tomato growers loss over $14 million from tomatoes grown, and in some cases harvested, but could not be sold since consumers 'quit buying tomatoes' on the recommendation of FDA and the CDC. It is conservatively estimated growers nationwide lost over $125 million from this false indictment from our own federal government. More importantly, many of the tomato producers in my district have yet to recover.

The FDA Food Safety Modernization Act, which was signed into law last December, authorizes payments to producers harmed by future government decisions which ultimately prove to be incorrect or ill-founded. I would certainly be interested in working with you to find a way to provide some assistance to our tomato producers, given the precedent set under this legislation.

Response: The Food Safety Modernization Act requires the Comptroller General to conduct a review of mandatory recall authority and mechanisms to compensate persons for recall-related costs when a recall is subsequently determined by the relevant agency to have been an error. As also required in the Act, if the Comptroller General's report ultimately finds that compensation mechanisms do not exist or are inadequate, USDA will conduct a study on the feasibility of implementing a farmer indemnification program to provide restitution to agricultural producers for losses sustained as a result of a mandatory recall of an agricultural commodity by a Federal or State regulatory agency that is subsequently determined to be in error.

[Language displayed below.]

FDA Food Safety Modernization Act, PUBLIC LAW 111353
JAN. 4, 2011,124 STAT. 3885

SEC.206. MANDATORY RECALL AUTHORITY
(e) GAO REVIEW.

(1) IN GENERAL. Not later than 90 days after the date of enactment of this Act, the Comptroller General of the United States shall submit to Congress a report that

(A) identifies State and local agencies with the authority to require the mandatory recall of food, and evaluates use of such authority with regard to frequency, effectiveness, and appropriateness, including consideration of any new or existing mechanisms available to compensate persons for general and specific recall-related costs when a recall is subsequently determined by the relevant authority to have been an error;

(B) identifies Federal agencies, other than the Department of Health and Human Services, with mandatory recall authority and examines use of that authority with regard to frequency, effectiveness, and appropriateness, including any new or existing mechanisms available to compensate persons for general and specific recall-related costs when a recall is subsequently determined by the relevant agency to have been an error;

(C) considers models for farmer restitution implemented in other nations in cases of erroneous recalls; and

(D) makes recommendations to the Secretary regarding use of the authority under section 423 of the Federal Food, Drug, and Cosmetic Act (as added by this section) to protect the public health while seeking to minimize unnecessary economic costs.

(2) EFFECT OF REVIEW. If the Comptroller General of the United States finds, after the review conducted under paragraph (1), that the mechanisms described in such paragraph do not exist or are inadequate, then, not later than 90 days after the conclusion of such review, the Secretary of Agriculture shall conduct a study of the feasibility of implementing a farmer indemnification program to provide restitution to agricultural producers for losses sustained as a result of a mandatory recall of an agricultural commodity by a Federal or State regulatory agency that is subsequently determined to be in error. The Secretary of Agriculture shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report that describes the results of the study, including any recommendations.

BROADBAND

Mr. Bishop: There are is large number of Georgia residents living in rural communities waiting for the broadband coverage and service resulting from the grants which were approved in 2009 under the stimulus program. My office has spoken with each of the three primary service providers who won USDA/RUS broadband grants, covering southwest Georgia. However, each firm tells us that while they submitted all the paperwork required by RUS to process the grants some time ago, none have actually received any funding as of yet! In one case, the paperwork has been pending since last fall.

Of the total funds obligated nationwide, what is the total amount of funds which have been allocated to grantees? Is there any way we can expedite the processing of these grants?

Response: Under the Recovery Act, the Rural Utilities Service approved $3.6 billion in funding for more than 300 broadband projects across the country. These projects are moving forward on schedule to meet the three-year deadline mandated by the Recovery Act. Of the nine Recovery Act-funded broadband projects in Georgia, funds have been made available to one awardee, Flint Cable TV, as RUS has cleared the document and environmental review for that particular project. For the remaining Georgia projects, RUS is working to clear the documents for three projects and is working to finalize the environmental findings for five projects.

Of the total funds obligated nationwide, $1.974 billion in project funding is available for construction or pending final clearance, and $82 million in funding has been drawn down by awardees. In order to ensure responsible administration of Federal funding, documentation for these broadband projects undergo a comprehensive review by RUS loan and grant specialists. We are doing everything in our power to expedite these projects to ensure they meet the construction deadline.

QUESTIONS SUBMITTED BY CONGRESSWOMAN KAPTUR

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Ms. Kaptur: Mr. Secretary, I am very concerned about the House Continuing Resolution that was approved by the House of Representatives. While the focus should be on job creation, Congress is instead delivering a death blow to millions of Americans that are on the edge of society. How does cutting the Commodity Supplemental Food Program or the Women's Infants and Children program create jobs?

Response: The President's Budget request for Fiscal Year 2011 asks for $176.788 million for CSFP, which supports 604,931 caseload slots nationally. The President's FY 2012 Budget request also supports this caseload level. Cutting CSFP or WIC funding does not create jobs and will impact the availability of domestic nutrition assistance to low-income Americans.

Ms. Kaptur: While the Commodity Supplemental Food Program was cut $20 million in the Fiscal Year 2011 full year CR, the cut is actually much greater than it appears. Instead of spreading the cut through an entire year, this cut is focused in just the remaining part of the year. For the remainder of the year, this would mean decreased food for those struggling at the edge.

Could you elaborate on how the $20 million cut would impact CSFP programs in the states?

Response: A $20 million reduction in the appropriation for CSFP would result in a caseload decrease of almost 81,000 persons, and an immediate cut in participation of almost 61,000 persons. Current participation is approximately 585,000 per month, and at the reduced level of funding the program could support only 524,000 participants per month for the remainder of the fiscal year. Thus, States would have to stop providing food packages to approximately 61,000 persons who are currently receiving them. Currently, program participants are approximately 96 percent elderly, so this reduction would have the greatest affect on the low-income elderly served by this program. In addition, the administrative funding provided to States would be reduced because of the reduction in caseload. An 81,000 reduction in caseload slots would result in States receiving approximately $5.5 million less funding for administrative expenses.

Ms. Kaptur: What would this $20 million cut mean for the states recently added to the program or for the two new states Hawaii and Connecticut that have applied to be added into CSFP?

Response: If CSFP funding is reduced by $20 million for Fiscal Year 2011, all States currently participating in CSFP will receive reduced caseload for the remainder of this year. This includes the five new States added to the program in 2010. Since current funding levels are inadequate to support additional States, including Hawaii and Connecticut, that would clearly remain true if CSFP funding were further reduced.

Ms. Kaptur: From my understanding, the CSFP cut for Ohio would mean that 2,456 people would no longer be served by the CSFP program if the $20 million cut was annualized throughout the entire year. In your travels across the country, what would a cut like this mean for the seniors served by this program?

Response: My travels across the country, as well as my tenure as the Governor of Iowa, have given me a great appreciation for the important role that programs like CSFP play in providing food assistance for seniors. Seniors comprise more than 90 percent of overall participation. CFSP serves as a nutritional safety net for this particularly vulnerable population. We remain committed to supporting CSFP participation, as reflected in the President's Budget for Fiscal Years 2011 and 2012.

Ms. Kaptur: If the $20 million cut was crammed into just seven months, this 2400 caseload cut would balloon to over 4000 cuts in my state of Ohio. 4000 low income seniors will be cut from the program. Now instead of looking for slots by going to the food bank, these seniors will have to look in the obituaries in the hope that more slots open through attrition. This is not the America I know.

As we so readily know, participation rates in the SNAP program among seniors are miniscule and CSFP fills a critical gap that otherwise would leave tens of thousands of seniors without food supplements. At a time of critical need across our country, is cutting food assistance for hungry seniors just?

Response: The Administration recognizes the importance of food assistance for low-income seniors, and the President's Budgets for FYs 2011 and 2012 request funding which maintains current CSFP caseload levels.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

Ms. Kaptur: While there is often discussion about the ability of private donations to fill in the gaps and serve those in need, it is critical to note that Ohio alone, almost 30% of the food provided at food banks is provide by one program, the Emergency Food Assistance Program, yet, in the Republican full year CR, this program faces a $6 million cut in infrastructure funding.

Mr. Secretary, could you please highlight for the committee your experience across the country in the necessity of the TEFAP program in meeting these gaps?

Response: My travels across the country as well as my tenure as Governor of Iowa, have given me great appreciation for the Emergency Food Assistance Program (TEFAP). TEFAP provides foods and administrative funds to States for further distribution to local organizations that assist the needy, including food banks, food pantries, and soup kitchens. The program provides a variety of healthy foods, helping many families across the country to put food on the table in times of need.

This Administration is committed to supporting the efforts of local feeding organizations. TEFAP provides a relatively small amount of food for the emergency food assistance program as a whole; the remainder comes from corporate and private donations and food bank purchases.

Ms. Kaptur: For food banks across the country, the TEFAP infrastructure program has meant that food banks struggling to keep their doors open can assist families at the brink of society. What would the affect of the $6 million cut in the administration budget request be on Americans that rely on the services of food banks be?

Response: Unfortunately, this tough economic climate has required this Administration to make difficult decisions about discretionary program funding. The $6 million for TEFAP Infrastructure Grant program would have been provided through a competitive grant process and is in addition to regularly appropriated TEFAP administrative funds. In FY 2010, the grant provided funding to a very small number of emergency feeding organizations for the sole purpose of infrastructure development. While the funding was critical to those organizations, we do not anticipate that this cut will affect the majority of the emergency feeding organizations across the country and should not diminish the level of service these organizations provide.

Ms. Kaptur: How does cutting $6 million dollars from Emergency Food Assistance create jobs? How many jobs does this proposal create?

Response: In FY 2010, through the Emergency Food Assistance Program (TEFAP) Infrastructure Grant, approximately $6 million was awarded to 39 food banks, food pantries, and soup kitchens. The majority of the funds were used for walk-in freezers and coolers, generators, warehouse repairs, truck and trailer purchase, and other similar activities. The proposal to cut these funds is not expected to create any jobs, however these resources were not provided to directly create jobs but improve infrastructure.

WIC PROGRAM

Ms. Kaptur: In the Continuing Resolution, HR 1 the proposal includes a 10% cut to the Women's Infants and Children's nutritional assistance program. How many jobs does this proposal create?

Response: The WIC Program is currently operating under a continuing resolution (CR) level of $7.252 billion. The President's FY 2012 Budget Request assumes the Congress will continue to fund the WIC Program for FY 2011 at its current CR level and provides for just over $7.39 billion for FY 2012.

The Department understands the cut proposed by HR 1 would reduce the WIC Program's FY 2011 appropriation to just over $6.5 billion. The cut proposed by HR 1 might adversely impact the WIC Program's ability to serve all eligible persons seeking WIC benefits. If WIC program costs reach or exceed the current estimates for FY 2011, the Department would need to access to the WIC Program contingency.

The proposal is not expected to create any jobs.

Ms. Kaptur: Malnutrition in the first five years of life can have devastating consequences on the development and a child and can cost millions of dollars over the life of that person. In this debate today we seem to be forgetting the purpose of these nutritional assistance programs. During the depression, millions of Americans were so under nourished that when it came time to fight World War II they were ineligible to fight. Programs like WIC are crucial for ensuring that children have the nutrition they need at the most critical time of their development. Mr. Secretary,is an investment in WIC worth it over the long term and what types of benefits does ensuring that hungry mothers have the nutritional assistance they need have for society as a whole.

Response: Ensuring proper nutrition during the critical early stages of prenatal, infant and child development is one of the best investments our nation can make. A GAO study concluded that each federal dollar invested in prenatal WIC benefits saves federal, state, and local governments and private payers an estimated $3.50 (GAO/HRD-92-18). Much of this is due to WIC's effects on preventing low birth weight and very low birth weight. The GAO further noted that early intervention programs, such as WIC, are "social investments" with benefits that accrue to society.

Various studies suggest that the WIC Program has an important role in reducing adverse birth outcomes and their associated costs. Researchers have noted that infants who are born premature, at low birth weight, and, especially, at very low birth weight, are at high risk for long-term medical problems and developmental disabilities that account for significant costs to Medicaid, Supplemental Security Income, and special education, among other Federal, State, and local programs. The GAO report noted that WIC benefits reduced the rate of low birth weights by 25 percent, and reduced the rate of very low birth weights by 44 percent.

Research has also shown that the WIC program plays a role in children's education, with children whose mothers were on WIC prenatally scoring higher on tests that predict future scholastic achievement than children whose mothers were not on WIC. Studies show that while WIC infants are less likely to be underweight, they are not at greater risk for overweight. WIC reduces iron-deficiency anemia and by increasing immunization rates, helps prevent major childhood diseases that can cause long-term disabilities. WIC children also have increased intakes of important nutrients, and WIC nutrition education leads to increased consumption of whole grains, fruits, and lower-fat milk. Overall, WIC is well worth the nation's investment to ensure that all eligible women, infants and children who seek benefits can be served.

FOOD SAFETY INSPECTION SERVICE

Ms. Kaptur: As you know, the House of Representatives recently passed H.R. 1, the Continuing Resolution for FY 2011. That bill contained nearly $60 million in cuts for the Food Safety and Inspection Service for the remainder of this fiscal year. Should these cuts be signed into law, how would FSIS implement that reduction in funds? Because of the continuous inspection requirements in the Federal Meat Inspection, Poultry Products Inspection, and Egg Products Inspection Acts, what would be the implications of those cuts should they be signed into law?

Response: To mitigate an $88 million reduction, the Agency would seek to manage the effects in such a way as to minimize the impact on the Agency's regulatory responsibilities, on industry, and ultimately the consumer. FSIS would likely need to furlough employees, and in one scenario, FSIS would need to furlough frontline inspection personnel(currently more than 8,000) resulting in approximately 6,200 federally inspected meat and poultry plants being shut down for over one month.

It is difficult to estimate the exact impact on the industry, but during FY 2010, FSIS inspection program personnel ensured public health requirements were met in establishments that slaughter and/or process 147 million head of livestock and nine billion poultry carcasses. Assuming a similar level of slaughter and processing in FY 2011, disruption of inspection for over a month would likely result in billions of dollars of impacts.

REGULATIONS GOVERNING POULTRY IMPORTS

Ms. Kaptur: On January 24, 2011, the Animal and Plant Health Inspection Service published an interim rule in the Federal Register that changed APHIS policy on the importation of poultry products from countries that have experienced outbreaks of avian influenza. It was because of APHIS' concerns with the avian influenza outbreaks in the People's Republic of China that limited the scope of the April 24, 2006 FSIS rule to permit the importation of processed poultry products only if the source of the raw poultry came from either the U.S. or Canada. The APHIS interim rule now permits certain countries that have experienced outbreaks of avian influenza in their poultry flocks and China is explicitly included on that list to export poultry products to the U.S. under certain conditions. Can you tell us why USDA has changed its position from the one taken in 2006? It was also interesting that the publication of the interim rule occurred right after the visit by Chinese President Hu Jintao to Washington? Was that a coincidence or was some sort of understanding reached while he was here that such a rule would be published?

Response: The interim rule is not a reversal of previous policy. China is currently suspended by the Food Safety and Inspection Service (FSIS), so this rule will not alter China's ability to export poultry products for human consumption to the United States.

APHIS regulations previously permitted processed (cooked, cured, etc.) carcasses and certain eggs to enter under an import permit as long as strict mitigations were taken to prevent incursions of highly pathogenic avian influenza (HPAI) subtype H5N1.

The January 2011 interim final rule specifies the internal temperature to ensure that the cooking of the carcass is sufficient to inactivate the viruses of interest. Previously, the mitigations applied only to the H5N1 subtype of HPAI. Under the interim rule, mitigations are required for all subtypes of HPAI. Also under the interim rule, we are moving away from import permits by allowing the exporting country to certify that mitigations were taken in their export certification statements. APHIS has the ability to validate what is certified through on-site inspection.

FOOD SAFETY INSPECTION SERVICE/ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Ms. Kaptur: The timing for the APHIS decision immediately after the Chinese premier was negotiating with the President provides the appearance that USDA is engaging in a political process not one that works for the health and welfare of the American people. What is the status of the equivalency determination for the People's Republic of China to export processed poultry products to the United States?

Response: In June 2010, FSIS sent a team of specialists to China to review China's new Food Safety Law, followed by a three-week on-site audit of China's poultry inspection system in December 2010. FSIS is currently reviewing its audit findings and is working toward providing China with a draft report on its findings.

As noted in USDA's third progress report on China's request for equivalency recently submitted to the House and Senate Appropriations Subcommittees on Agriculture, after the audit reports are completed, it will be China's responsibility to work with USDA to correct any concerns that may be raised. If China successfully addresses any issue found in the processing audit, China would then be able to certify a list of establishments eligible to ship processed poultry that originated from an approved source to the United States. Furthermore, if China adequately responds to any potential issues in the slaughter audit, the next step would be for FSIS to publish a proposed rule in the *Federal Register* proposing to add China to the list of countries eligible to export slaughter poultry to the United States.

UNDUE PREFERENCE RULE

Ms. Kaptur: As a supporter of small agriculture, I have long believed that the Department of Agriculture and Department of Justice have been lax in enforcing protections for contract abuses. What is the time line for the Department to complete its evaluation of the 60,000 comments filed on the proposed undue preferences rule whose comment period closed on November 22, 2010? When do you expect the cost-benefit analysis to be completed by the Office of the Chief Economist? Do you still feel comfortable with the rule as originally proposed?

Response: The Grain Inspection, Packers and Stockyards Administration (GIPSA) received 61,000 comments about all aspects of the proposal, including comments about the cost-benefit analysis, from economists and others representing all segments of the market. The proposal is the first step in an important process that will include serious consideration of the public comments and further cost-benefit analysis based on those comments. This will help the Department determine if all factors have been properly considered and if or how changes should be incorporated. I have directed Dr. Joseph Glauber, USDA's Chief Economist to lead a team that includes economists from GIPSA, the Economic Research Service, and his own office to analyze and address comments in the cost-benefit analysis. Once the cost-benefit analysis and comment review process is completed, the agency will begin drafting the rule, enter it through Departmental clearance, and then submit the rule to the Office of Management and Budget (OMB) for approval before publishing it. Since we are still evaluating the complexity and economic aspects of the comments, it would be premature to indicate when the cost-benefit analysis and rule will be completed. But we will keep you informed of our progress. USDA's focus is in making sure the rule is done right, and that it be workable, feasible, and commonsense.

ENERGY PROGRAMS

Ms. Kaptur: "Our farm groups work most closely with agricultural producers and can do more with assistance through REAP's Energy Audit and Renewable Energy Development Assistance program. Section 9007(b)(2)(D) specifically gives you the authority to designate farm groups as eligible recipients for this funding. Will you exercise that authority to help our agricultural producers save money with energy efficiency and earn new income with renewable energy?"

Response: An interim rule that implements requirements of the 2008 Farm Bill for REAP is currently under review. Changes included in the interim rule are considered pre-decisional and cannot be discussed at this time. USDA anticipates the publication of the interim rule soon.

Ms. Kaptur: Farmers have harvested the sun since there have been farmers. With modern technologies, they can tap solar energy for both power and heat and reduce the impact of rising fossil fuel costs. Is the Department truly embracing ALL renewable energy technologies and what are you doing to promote the less traditional farm energy technologies such as wind and solar?"

Response: USDA's Rural Utilities Service has recently provided a $204 million loan to Basin Electric Power Cooperative in South Dakota to construct over 100 wind turbines that produce 151.5 megawatt of power. USDA funding is available to support a variety of technologies including wind and solar. The electric program makes loans for wind and solar facilities and has supported the development of renewable energy through various technologies.

Additionally, the Rural Energy for America Program also provides loan guarantees and grants for the development of renewable generation facilities such as wind and solar. REAP is also capable of providing funding for anaerobic digesters, hydropower, and geothermal technologies, among others.

Ms. Kaptur: Mr Secretary, we need to get the funding notice for REAP in 2011 finally released. Can we look forward to that being done this week?"

Response: An interim rule is currently under review. A Notice of Funding Availability (NOFA) is also under review and will be published under criteria contained in the interim rule. The NOFA and interim rule will be published simultaneously. USDA anticipates the publication of both the NOFA and interim rule soon.

Ms. Kaptur: What opportunities do you see for Ohio producers to participate in the BCAP program and help develop the next generation of energy crops?

Response: Since publication of the BCAP final regulations in October 2010, USDA has received several proposals for BCAP project areas in Ohio and is working to review, and if possible approve, project areas where producers may apply for payments to establish and produce next generation energy crops. We encourage the producers and the energy industry in Ohio and elsewhere to come to USDA with project area proposals and applications to qualify for biomass conversion facilities.

Ms. Kaptur: What kind of education and outreach are you conducting in Ohio to help producers learn about the opportunities presented by the BCAP program?

Response: The Farm Service Agency has issued a number of National notices, press releases, and fact sheets to educate producers and the public about BCAP. Awareness of BCAP in Ohio appears high, given the number of inquiries the Agency's State office has fielded there. The Ohio State office is maintaining a listing of all those who have indicated an interest in the program and is contacting them as opportunities and information become available. Additionally, FSA is collaborating with Rural Development to include BCAP information in outreach and education activities across the State.

Ms. Kaptur: Given the recent departure of three top FSA staff involved with administering BCAP, how will the Department continue to make progress and promote the program at this crucial time?

Response: Progress on the implementation and delivery of BCAP will continue as scheduled. FSA foresees no delays caused by staff departures.

Ms. Kaptur: Mr. Secretary, the Congressional authorization for the REAP program does not permit funding energy conveyance systems such as pipelines or transmission lines for renewable electricity - or blender pumps. If the Department uses REAP for blender pumps then it will drain funds available for the Congressionally permitted uses. Worse, this funding will flow to gas stations owners, not farmers, and those blend pumps may mostly pump gasoline. Will you drop your efforts to use REAP for blend pumps and move REAP forward for 2011?"

Response: The Department will continue to administer all Title IX programs to meet their intended purposes -- greater energy independence and security, an improved rural economy, and a healthier national environment.

Our Nation continues to import the majority of its fuel, often from countries at risk or on shaky political ground. Offsetting fuel imported from these nations with fuel produced here at home is vital to our national security and protects our Nation's energy supplies, now and in the future.

Higher blends of ethanol in the Nation's fuel supply lead directly to more jobs in rural areas, enhanced farm and forestry income, and significantly reduced greenhouse gas emissions.

Delivery of higher fuel blends to satisfy the Renewable Fuel Standard (RFS2) mandates and to meet the demands of millions of FlexFuel Vehicles on the road today and in the national fleet tomorrow requires greater access to renewable fuels. The Department is presently exploring policy alternatives/options to increase the number of delivery points and volume sold of these higher fuel blends to reduce our Nation's dependence on foreign oil, to grow our rural economy, and improve our environment.

Ms. Kaptur: The 2008 Farm Bill contained important investment in alternative energy programs that if implemented effectively could mean important opportunities for Americas farmers. Please tell us about the implementation of BCAP and the changes over the last year? While there have been problems with BCAP in the past, please update the committee on progress that FSA has made in implementing the program.

Response: With the publication of the BCAP final rule in October 2010, FSA has made the project area portion of the program available, which was not available when BCAP was implemented under a notice of funding availability. Also, FSA has clarified matching payment qualifications for the collection, harvest, storage, and transport of eligible biomass materials in response to public comments from stakeholders. The changes embodied in the final rule more effectively target BCAP assistance to the establishment and production of next generation biomass crops, helping to create new opportunities for America's farmers and reducing our reliance on food crops for biofuel production.

Ms. Kaptur: Is it true that the Collection, Harvest, Storage, and Transportation portion of BCAP has been greatly revised since the final rule was published, and that the project areas portion of the program has only begun to be implemented, with the first payment yet to be made? When will the first payment for this portion of the program be made?"

Response: The implementation of portion of BCAP that provides matching payments for Collection, Harvest, Storage, and Transport of eligible material has been revised under the final rule as compared to what was implemented under the notice of funding availability. The refinements under the final rule were put into place to help ensure that these BCAP matching payments are being effectively directed to producers of biomass crops and materials.

USDA is currently accepting and evaluating proposals for project areas where BCAP payments for the establishment and production of biomass crops can be made available. We understand the urgency of delivering these payments and will do so as expeditiously as possible while being mindful of the Department's due diligence and environmental responsibilities.

Ms. Kaptur: In addition to the USDA energy programs focusing on the opportunities to developing on farm energy, I have also been long interested in the USDA research energy programs. Could you please elaborate on efforts to coordinate the new energy authorities across the many different divisions at USDA?

Response: I have created an Energy Council that I chair and that comprises of sub-cabinet members from the mission areas within USDA. The Energy Council promotes coordination and collaboration across the Department to assure a comprehensive energy strategy is in place. In addition, I have created an Energy Council Coordination Committee (ECCC) with the responsibility for the day-to-day coordination of all energy programs and related activities among USDA mission areas and agencies. ECCC members are appointed by the respective Energy Council members. The ECCC meets on a weekly basis to assure USDA energy programs and related activities are being coordinated.

Ms. Kaptur: How do you intend to better integrate the ARS and NIFA authorities to promote alternative energy programs?

Response: To build on USDA's nation-wide research strengths to support Congress' mandate to produce 36 billion gallons of biofuel by 2022, USDA supports both intramural and extramural activities.

Some of these activities are coordinated by the five regional Biomass Research Centers (Centers) that are networks of ARS and FS scientists at existing facilities across the country. The expanded coordination of USDA intramural bioenergy research efforts has been done concurrently with increased extramural resources dedicated to alternative energy development through the NIFA Agriculture and Food Research Initiative (AFRI) *Sustainable Bioenergy* Coordinated Agricultural Projects (CAP) grant program. The CAP program aims to support region-based integrated bioenergy research-education-extension-demonstration projects. The jointly-funded USDA-Department of Energy (DOE) solicitations for the Section 9008 *Biomass Research and Development Initiative* grants have been designed to complement the intramural USDA Biomass Research Centers and extramural AFRI CAP projects.

AGRICULTURAL TECHNOLOGY INNOVATION PARTNERSHIP

Ms. Kaptur: Spinning off new technologies from the top notch USDA research is a high priority for me. With the new innovation agenda, I would like to see a comprehensive USDA policy to transfer the new techniques and technologies being produced at USDA. In my district, USDA has just signed an agreement called ATIP which attempts to transfer technologies produced at USDA into the hands of small businesses. What types of opportunities are there to expand this critical program?

Response: Discussions are ongoing. USDA is a key participant in several White House working groups on innovation initiatives in expanded or new opportunities across agencies to promote commercialization from science-based innovations arising from Federal laboratories. In particular, USDA participated in the roll out of the Startup America (SUA) Initiative on February 1, 2011, and on February 4, President Obama released "A STRATEGY FOR AMERICAN INNOVATION; Securing our Economic Growth and Prosperity", in which the Agricultural Technology Innovation Partnership or ATIP is identified as a unique regional innovation cluster. The Startup America task group has suggested a formal roll out of ATIP in the third quarter of the calendar year. USDA, ATIP, and a representative from SUA are convening in mid-March to identify programs and opportunities to do so, and enhance delivering of USDA innovations to the private sector.

CIVIL RIGHTS

Ms. Kaptur: Mr. Secretary, your administration has recently reached agreement to settle claims from Woman and Hispanic farmers that have made claims against the federal government. This decision is critical and on behalf of the disenfranchised you should be commended. Would you like to walk this committee through this success?

Response: The settlement will turn the page on the discrimination claims made against the Department by Hispanic and women farmers and provide compensation to a final group of individuals who faced discrimination. The USDA and Department of Justice (DOJ) are providing Hispanic, Latino and women farmers and ranchers who allege discrimination an option for a streamlined process to resolve their claims simply.

In recent years, Federal courts decided not to certify the lawsuits brought by Hispanic and women farmers as class actions. This means that the individual farmers were left with one option: to take their claims individually through the federal court system.

Having to rely on the courts might discourage many farmers from seeking redress because of the significant financial and time resources required for an individual lawsuit. The process we are announcing today will help folks resolve their claims more simply.

If you believe that USDA improperly denied you farm loan benefits between 1981 and 2000 because you are Hispanic, Latino, or female you can find information about the claims process at www.farmerclaims.gov or by calling 1-888-508-4429.

Claimants will have 180 days from the opening date of the Claims Period, to be announced by the USDA, within which to file a complete Claims Package.

As part of this claims process, USDA will conduct extensive outreach and notice efforts to Hispanic and/or women farmer communities so that all eligible farmers and ranchers learn about this option and are provided an opportunity to participate.

REGIONAL INNOVATION INITIATIVE

Ms. Kaptur: Mr. Secretary, I am very intrigued at your proposal with the regional innovation initiative. The idea of pooling the many resources at USDA and using your authorities with regional focus is a very important proposal. I have long complained that USDA operates only in stovepipes and forgets about the many opportunities across the different jurisdictions of USDA. For the record, could you please elaborate on this proposal?

Response: The Regional Innovation Initiative (RII) is about focusing on the needs and visions of the people in rural communities, to transform and grow regional economies. The private sector and nonprofit organizations need to be at the heart of these strategies; yet Federal, State, and local governments should support these efforts by utilizing their current programs to invest in robust regional strategies and by providing technical assistance to communities and regions that do not have the capacity to assess their current assets or have the ability to create robust regional strategies. In these times of scarce resources, USDA needs to better target its resources to projects that have a greater chance of moving the dial in rural America. By supporting locally-led projects that are linked to the regional economy, USDA will more wisely focus its funds.

The 2012 budget identifies several programs within Rural Development and the Agricultural Marketing Service that have the capacity to support people in rural communities who are working on regional strategies. Five percent of the funding provided for these programs would be targeted for the first six months of the fiscal year for communities or projects that are part of a regional strategy.

Below is a list of the programs contributing towards the proposed 5 percent set-aside:

Guaranteed Business and Industry loan program
Rural Business Enterprise grants
Rural Business Opportunity grants
Rural Economic Development loan and grant program
Rural Microenterprise loan and grant program
Rural Energy for America loan guarantee and grant program
Intermediary Relending Program
Value-added producer grant
Broadband loan and grant program
Water and Waste direct and guaranteed loans and grant program
Community Facilities direct loan and grant program
Rural Community Development Initiative grant
Farmers Market Promotion program
Wholesale, Farmers, and Alternative Market Development program

In addition to the 5 percent set-aside, the budget proposes an increase of $5 million in the Rural Business Opportunity grants to be used for RII. The budget also proposes a $1.4 million increase in the Rural Community Development Initiative grants to be used for regional development.

Ms. Kaptur: In my district where some of my counties are ineligible for many rural development programs, how can Rural Innovation assist my communities' access the important USDA resources?

Response: The Regional Innovation Initiative (RII) operates all programs included in the set-aside under the authorities provided by Congress, including the individual program rural area requirements. However, regional development in rural areas can benefit urbanized areas by providing another outlet for jobs or commercial development outside normally congested areas.

THURSDAY, MARCH 17, 2011.

COMMODITY FUTURES TRADING COMMISSION FY 2012 BUDGET

WITNESS

GARY GENSLER, CHAIRMAN, COMMODITY FUTURES TRADING COMMISSION

Mr. KINGSTON. The Committee will come to order.

I want to welcome Chairman Gary Gensler and the CFTC with us here today for a one-man panel. Yesterday we had five people at the desk. So you have a lot of answers in your head.

We are glad to have you here on St. Patrick's Day.

CFTC is always of interest to this Committee, and more and more we plan to have other CFTC hearings and have more involvement in it this year not just because of Dodd-Frank, but because there are so many people that are in it now. It is a tail that really and truly wags a huge dog, and $226 trillion, if that is correct, in swaps and $36 trillion in futures. So if those numbers are right, and I know you know what they are exactly in your head, but it is an enormous surprise, has a profound impact.

You know, we are in tight budget. I know you have asked for a two-year appropriation. I do not know that we are going to be doing any two-year appropriations, but we will have that discussion and are going to work with you throughout this process.

With that, let me yield the floor to Mr. Bishop and see if he has anything.

Mr. BISHOP. Thank you very much.

Let me welcome you, Mr. Gensler. Obviously, your area of expertise and your agency has gotten a great deal more attention in the last few months than in previous years, and so we are welcoming you.

And I notice that you have requested some significant increases over the last, and I would just imagine that it has to do with some of your increased responsibilities that have been given to you by the Congress.

So without further ado, we look forward to hearing your testimony and getting into the question and answers. Thank you for being here.

Mr. KINGSTON. And with that, Mr. Gensler, the floor is yours.

Mr. GENSLER. Thank you so much, Chairman Kingston, Congressman Bishop.

I thank the Chairman for seeing me last week, and I look forward to having additional meetings with you. I think it is very helpful.

Ranking Member Farr.

I thank you for inviting me to speak about the 2012 budget request. I also want to congratulate both Congressman Farr and Chairman Kingston on your new roles, and I look forward to working with you.

The CFTC is a good investment for the American public. Each part of our Nation's country relies on well functioning derivatives markets. It is essential that producers, merchants, and other end users can manage their risk. And what the derivatives markets fundamentally do is to allow those companies to lock in a price in the future. Such a price certainty allows those companies to better make essential decisions and investments. So it is about price certainty and lowering risk.

The business certainty that derivatives markets can provide only exists to the degree that end users have confidence in the integrity of the market. So where does the CFTC fit in? We were created to oversee commodity futures markets, initially agricultural markets, but ultimately all commodities. So the tens of thousands of farmers, energy users, corporations, municipalities, anyone really who wants to hedge a risk could have the basic assurance of fair treatment and the ability to lock in a price.

The CFTC fulfills this mandate through market surveillance, industry oversight, enforcement. We pursue fraud, such as Ponzi schemes and market manipulations, and we oversee the exchanges where people buy and sell these instruments, and clearing houses.

We are also a cop on the beat. That is not our own role because we want to make sure there is transparency, but we are a cop on the beat to make sure those markets are free of fraud, manipulation, and other abuses.

So I would also add that though we are not a price setting agency, rising prices and basic commodities, agricultural and energy products, highlight the importance of having an effective market oversight that insures integrity and transparency.

Our scope has been traditionally over the futures market that has existed for decades. In the 1980s, a new type of derivatives, swaps, emerged. Swaps remained unregulated until the Dodd-Frank passage, and the swaps market, as the Chairman noted, is about seven times the size of the futures market that we currently oversee, and at close to $270 trillion, is nearly 20 times the size of our economy itself, just arithmetic, dollar for dollar.

So our budget request takes that into consideration. The President asked for $308 million. It is an increase from the 168 or so million level that we are operating at under the continuing resolution. To put in context, our agency right now has about 675 people. We were at 634 when we peaked in the early 1990s. We were shrunk about 25 percent by 2007 and 2008, and only with the help of this Committee and Congress did we get back to where we were in the 1990s.

To take on the new responsibilities of the swaps market for the first time, the request is to go to 983 people, about 45 percent more staff, but also to double our technology so that we can be efficient and use that technology wisely, to process applications, conduct surveillance, investigate fraud and the like, but we will need technology as well.

If I might, before I conclude, spend a moment on 2011 because I know you are in the midst of discussing that with your colleagues. The President did request $261 million for the year we are in. Of course, we are operating under the continuing resolution, but given the size and complexity of the swaps market, seven times the size and more complex than the futures market, the current funding of $168 million under the continuing resolution is not sufficient for the expanded mission.

We recognize the budget deficit presents significant challenges to Congress and to the American public, but we cannot forget also the 2008 financial crisis which was very real. An investment in the CFTC we think is a good investment. It is warranted because, as we saw in 2008, without oversight of the swaps market, billions of taxpayer dollars were at risk.

I thank you. I am happy to take any questions you may have.

[The information follows:]

**STATEMENT OF GARY GENSLER
CHAIRMAN, COMMODITY FUTURES TRADING COMMISSION
BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES
March 17, 2011**

Good morning Chairman Kingston, Ranking Member Farr and members of the Subcommittee. I thank you for inviting me to today's hearing on the Commodity Futures Trading Commission's (CFTC) fiscal year (FY) 2012 budget request. Though I will focus my testimony on the resource needs of the CFTC for FY 2012, I also will address the CFTC's funding situation during FY 2011.

Before I begin, I want to congratulate Congressmen Kingston and Farr for becoming Chairman and Ranking Member of this Subcommittee. I look forward to working with you, your staffs and all members of the Subcommittee.

CFTC Mission

The CFTC is a good investment for the American public, overseeing vast markets with a relatively small staff. At its core, the mission of the CFTC is to ensure the integrity and transparency of derivatives markets so that hedgers and investors may use them with confidence. Derivatives emerged as tools to allow producers and merchants to be certain of the prices of commodities that they planned to use or sell in the future. Derivatives markets are used to hedge risk and discover prices and work best when they are transparent and free from fraud and manipulation.

The CFTC has historically been charged with overseeing one part of the derivatives market – the commodity futures markets. These markets have been around for more than a century. Initially, there were futures on agricultural commodities, such as wheat, corn and cotton. The markets have grown to include contracts on energy and metals commodities, such as crude oil, heating oil, gasoline, copper, gold and silver, and contracts on financial products, such as interest rates, stock indexes and foreign currency. These markets – and our regulatory oversight – affect tens of thousands of farmers, ranchers, oil producers, corporations, municipalities, pension funds and anybody else who wants to hedge a risk and get the benefits of transparent pricing in competitive markets.

Each part of our nation's economy relies on a well-functioning derivatives marketplace. It is essential so that producers, merchants and other end-users can manage their risks. It allows those companies to lock in prices for the future. Such price certainty allows companies to better make essential business decisions and investments. Thus, it is critical that market participants have confidence in the integrity of these price discovery markets.

Though the CFTC is not a price-setting agency, rising prices for basic commodities – agricultural and energy – highlight the importance of having effective market oversight that ensures integrity and transparency.

The CFTC fulfills its statutory mandate through market surveillance, industry oversight and enforcement. We pursue fraud, such as Ponzi schemes, and market manipulation. We oversee futures exchanges and clearinghouses. We process registration applications, rule reviews, appellate filings and examinations of exchanges and clearinghouses. The CFTC is a cop on the beat that protects markets in commodities and derivatives from fraud, manipulation and other abuses.

CFTC Scope

The CFTC and its predecessors have overseen the commodity futures markets since the 1920s. A new type of derivatives called swaps, however, came around in the 1980s and remained unregulated until the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. That legislation expanded the CFTC's oversight to, for the first time, include both the futures and swaps markets. It also gave the CFTC new regulatory responsibilities. The Securities and Exchange Commission will have similar jurisdiction over the securities-based swaps markets.

The swaps market that the Dodd-Frank Act tasks the CFTC with regulating has a notional amount roughly seven times the size of that of the futures market and is significantly more complex. The notional value of the U.S. futures market in December was approximately $36 trillion. Based upon figures compiled by the Office of the Comptroller of the Currency, the largest 25 bank holding companies currently have $277 trillion notional amount of swaps.

Further, the Dodd-Frank Act expands the CFTC's regulatory authority to include new types of entities, such as swap dealers, swap execution facilities (SEFs) and swap data repositories (SDRs). The swaps market is more complex than the futures markets because it includes customized bilateral hedging arrangements. Whereas all futures trade on exchanges, some swaps will continue to be traded over-the-counter.

Implementing the Dodd-Frank Act

The CFTC is working deliberatively, efficiently and transparently to implement the Dodd-Frank Act. We initially organized our effort around 30 teams responsible for different rulemaking areas. A number of months ago we also set up a 31st rulemaking team tasked with developing conforming rules to update the CFTC's existing regulations to take into account the provisions of the Act.

At this point in the process, the CFTC has come to a natural pause as we have now proposed rules in 28 of the 31 areas required by the Dodd-Frank Act. As we receive comments from the public, we are looking at the whole mosaic of rules and how they interrelate. We will begin considering final rules only after staff can analyze, summarize and consider comments, after the Commissioners are able to discuss the comments and provide feedback to staff, and after the Commission consults with fellow regulators on the rules.

One component that we have asked the public about is phasing of rule implementation. Public comments will help inform the Commission as to what requirements can be met sooner and which ones will take a bit more time.

One proposed rule that we have yet to promulgate relates to margin requirements for swaps. In the Dodd-Frank Act, Congress recognized the different levels of risk posed by transactions between financial entities and those that involve non-financial entities. Consistent with this, proposed rules on margin requirements should focus only on transactions between financial entities rather than those transactions that involve non-financial end-users.

FY 2012 Budget Request

The President's Budget proposes that $308 million be appropriated for the CFTC for FY 2012 to remain available until expended through FY 2013. This funding level would enable the agency to perform its responsibilities both in the oversight of commodity futures markets and in beginning to oversee the swaps markets.

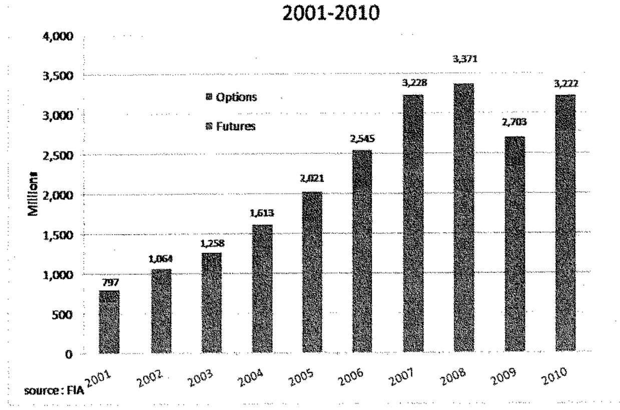
In 2008, both the financial system and the financial regulatory system failed the test for the American public. Though there were many causes to the crisis, the unregulated swaps market played a central role. The President's budget request asks for $140 million more than our FY 2010 funding level because the 2008 financial crisis was very real, and Congress mandated that regulation be brought to the swaps market. An investment in the CFTC is warranted, because, as we saw in 2008, without oversight of the swaps market, billions of taxpayer dollars may be at risk.

The CFTC's resources are used primarily on staff and technology.

The agency peaked in staff in 1992 at 634 staff, but staff levels were cut nearly 25 percent in the early 2000s to our lowest level of approximately 440 in 2007 and 2008. With the help of Congress, CFTC staffing levels just this past year returned to our levels of the late 1990s – the level needed to oversee the commodity futures markets at that time.

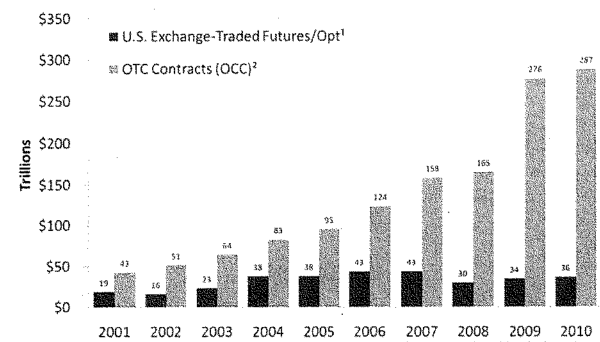
We currently have 676 thoughtful, experienced and hardworking staff who are dedicated to the agency's mission. In the last ten years, however, futures trading volume has increased more than four-fold. The number of actively traded futures and options contracts increased more than nine-fold. We have moved from an environment with open-outcry pit trading to highly sophisticated electronic markets.

Total U.S. Futures and Options Contract Volume 2001-2010



The President's budget would provide funding for 983 employees. Though we are asking for an increase in funding to support 45 percent more staff, it is in light of a Congressional mandate that expands our scope more than seven fold.

Notional Value of U.S. Exchange-Traded and OTC Contracts



As of year end. For 2010, OCC is for September.

[1] U.S. Exchange-Traded Futures/Options are those traded on CFTC Designated Contract Markets
[2] OCC data (Office of the Comptroller of the Currency) is for the top 25 bank holding companies with the most derivative contracts and "OTC" includes "Forwards," "Swaps," "Options" and "Credit Derivatives."

Effective oversight of the markets requires that we invest in both staff and technology. We need staff to process registration applications, conduct surveillance and rule enforcement reviews, investigate fraud and manipulation and perform many other functions that computers alone cannot. But we also need technology to pursue automated surveillance to oversee the markets and to make our oversight more efficient.

Despite rapid advances in technology and the increased size of regulated derivatives markets, funding for the CFTC has lagged behind the growth of the markets. While market participants have the technology to automate their trading, we do not yet have the resources to employ modern technology to automate our surveillance.

Last year, we used about 18 percent of our budget – $31 million – on technology initiatives. The CFTC needs to make further investment in technology to efficiently oversee both the futures and swaps markets. Only through investment in the CFTC will we be able to adequately oversee the commodity futures and swaps markets and protect the American public. The President's FY 2012 budget provides for $66 million to be used on technology, which would increase the proportion of our budget used on technology to more than 21 percent.

To put the CFTC's funding request in perspective, I might note that the CFTC current staff of 676 compares to approximately 800,000 people employed by U.S. brokerage firms, according to the Department of Labor's Bureau of Labor Statistics. That is out of a financial industry that employs 5.6 million people. Furthermore, the CFTC's funding request of $308 million compares to approximately $814 billion in annual revenues of the top 25 bank holding companies according to industry filings with the Federal Reserve. The CFTC's technology budget of approximately $20 million during FY 2011 compares to about $20-25 billion spent by U.S. broker/dealers on technology initiatives per year, according to a presentation recently given to the CFTC's Technology Advisory Committee by the TABB Group.

Detailed Funding Request

The requested funding increase to cover statutory authorities includes resources to accomplish the following goals:

Modernizing Information Technology and Establishing a New Group for Data. The Commission's FY 2012 budget request includes $66 million for technology. The requested budget includes $41 million to fulfill our pre-Dodd-Frank information technology requirements. This increase allows the Commission to invest in technology in an effort to keep pace with the futures marketplace that is becoming increasingly populated by algorithmic and high-frequency traders.

Technology will play a critical role in leveraging financial and human resources as the CFTC executes its expanded oversight and surveillance responsibilities pursuant to the Dodd-Frank Act. Accordingly, the Commission will establish a new group for the collection, management and analysis of data. This group will facilitate improved oversight and enforcement in the derivatives markets through the use of technology and data. It also will serve as the primary interface for market participants in adapting to the new data standards and reporting requirements for market data required under the Dodd-Frank Act.

The CFTC's FY 2012 budget request includes $25 million for technology needed to implement the Dodd-Frank Act. The resources requested are necessary for the CFTC to invest in direct data links to swap data repositories that are being established in the United States and internationally. The CFTC also must have the technology to aggregate and summarize the data for purposes of oversight and surveillance.

Establishing and Staffing a New Swap Dealer and Intermediary Oversight Program. The Dodd-Frank Act creates two new categories of registrants: "swap dealer" and "major swap participant." Staff will be needed to regulate them for robust business conduct standards, record-keeping and reporting requirements and capital and margin requirements. To effectively oversee swap dealers and major swap participants, the CFTC will create a new oversight program for these registrants.

Initial estimates are that there could be approximately 300 entities – compared to 127 futures commission merchants that are currently registered with the Commission (though other intermediaries are registered with the Commission, such as commodity trading advisors and commodity pool operators, the Commission only reviews FCMs due to resource constraints) – that will seek to register as swap dealers, FCMs or retail foreign exchange dealers.

Given the resource needs of the CFTC, we are working very closely with self regulatory organizations, including the National Futures Association (NFA), to determine what duties and roles they can take on in the swaps markets. In particular, we proposed rules that swap dealers would be required to be members of the NFA. This could facilitate the NFA taking on responsibilities related to registration and examination of swaps dealers. Nevertheless, the CFTC has the ultimate statutory authority and responsibility for overseeing these markets. Therefore, it is essential that the CFTC have additional resources to reduce risk and promote transparency in the swaps markets.

The CFTC had 82 staff at the end of FY 2010 responsible for overseeing intermediaries relating to pre-Dodd-Frank authorities. An additional 30 full-time equivalent (FTE) staff are requested for the new Swap Dealer and Intermediary Oversight Program for FY 2012, for a total of 112 FTE. The requested FTE resources will be essential to fulfill significant responsibilities related to registrants.

Clearing of Standardized Swaps through CFTC-Registered Derivatives Clearing Organizations. The Dodd-Frank Act requires that standardized swaps be cleared through CFTC-registered DCOs. It also requires that the CFTC review and examine systemically important DCOs for compliance on a yearly basis, which we do not currently have the resources to do. Clearing has lowered risk in the futures marketplace since the 1890s. As of the end of the last fiscal year, the CFTC oversaw 14 DCOs. Based on information we have received from potential new clearinghouses, we anticipate a 50 percent increase in DCOs to 20 or 21. The Commission has 40 FTE allocated to clearing oversight and risk surveillance. We are requesting an increase of 30 FTE for that team to address the significant increase in the number of DCOs, the more complex nature of the swaps markets and the Congressional mandate that we annually examine systemically important DCOs. This would bring total staffing levels to 70. The requested FTE resources will be essential to fulfill responsibilities related to clearing.

Oversight of Swap Execution Facilities and Designated Contract Markets. The CFTC will need additional staff to implement many new provisions related to the oversight of swaps trading activity as well as to oversee futures trading activities. These include procedures for the review and oversight of an entirely new regulated market category: SEFs. Staff in the Division of Market Oversight must establish and implement procedures for the review of new SEF applications and for the annual examination of the operations of SEFs, as well as any DCMs that offer swaps for trading. While the CFTC currently oversees 16 DCMs, based on industry comments, we that anticipate 30-40 entities will apply to register as SEFs.

Further, additional staff is necessary to evaluate data on swaps trading activity to implement the Dodd-Frank Act's real time reporting provisions and to establish appropriate block trade levels. At the end of FY 2010, the Commission had 40 staff responsible for our pre-Dodd-Frank responsibilities to oversee futures exchanges. The President's request would increase that level to 62 FTE while adding 38 FTE to implement new Dodd-Frank Authorities during FY 2012 for a total of 100 FTE.

Market Surveillance, Position Limits and Swap Data Repositories. The Dodd-Frank Act substantially expanded the responsibilities of the CFTC's Market Surveillance Unit in a number of critical ways. The Market Surveillance Unit currently administers a Commission-set position limit regime for a total of nine agricultural futures contracts listed on designated contract markets (DCMs). Under the Dodd-Frank Act, resources must be dedicated to implementing and enforcing new aggregate position limits that are expected to be adopted that will cover both the futures market and some portion of the swaps market. These limits would apply to 28 agricultural, energy and metals commodities.

The Commission also must establish and implement new procedures and monitoring mechanisms to ensure that swaps data is appropriately reported to SDRs. Such data must be properly monitored, maintained and made available to the Commission and other regulators. In addition, the Commission must have sufficient resources to analyze swaps data, detect and prevent market abuses and systemic problems and to prepare semi-annual reports on the swaps markets mandated by the Dodd-Frank Act. Initial estimates are that the Commission will receive at least five SDR applications upon the general effective date of the Dodd-Frank Act

The Commission requests resources for 42 FTE to implement these new authorities during FY 2012. The Commission also is requesting 105 FTE to carry out pre-Dodd-Frank authorities in the areas of market surveillance, trade practice surveillance and data management and analysis responsibilities. This would bring total FTE for these functions to 147 FTE.

Enhanced Enforcement Authority. The Commission's Enforcement program is operating with approximately 167 FTE. The Dodd-Frank Act significantly enhanced and expanded the Commission's responsibility to police the markets for fraud, manipulation and other abuses and will result in a substantial increase in the Commission's workload. The CFTC requires 68 additional FTE for the Enforcement program in FY 2012 – 33 for pre-Dodd-Frank authorities and 35 for new Dodd-Frank authorities – to reach a total of 235 FTE.

Enhancing Consumer Education. To enhance consumer protection, the Commission will reorganize the Commission's current consumer education and protection functions into a single office. This group will focus on the design, implementation and oversight of the Commission's customer education and outreach program. This program will allow a significant increase in the Commission's consumer outreach and education. In addition, we will establish a program to implement and administer the whistleblower requirements of the Dodd-Frank Act.

Enhancing Legal Analysis. As novel and complex legal and economic issues arise in the development and application of rules to implement the Dodd-Frank Act, the Office of General Counsel need to grow from 50 FTE to 70 FTE during FY 2012. This staffing level is essential to support all of its programs.

Regulating Foreign Boards of Trade. Currently, the Chief Counsel's Office in the Commission's Division of Market Oversight has a single FTE dedicated to the processing of no-action requests from foreign boards of trade (FBOTs) seeking to permit direct access to their trading platforms by members based in the United States. Currently, 20 FBOTs operate in the United States based upon no-action letters dating back to 1999. We expect those 20 FBOTs to register with the CFTC, plus an additional six to 10 FBOTs who have recently expressed an interest in becoming registered. The Dodd-Frank Act's establishment of the new category of registered FBOTs requires an increase of two FTE dedicated to FBOT matters to raise the total to three FTE.

Ensuring U.S. Interests in the Global Marketplace. The Office of International Affairs, which currently has nine staff, requires four additional professional staff to address the increasing global reach of the futures and swaps markets for a total of 13 staff. The Dodd-Frank Act specifically mandates that the Commission consult and coordinate with foreign regulatory authorities on the establishment of consistent international standards with respect to the regulation of swaps and futures.

Broadening Economic Analyses. Swaps vary substantially in terms of economic structure and will require expanded economic analyses. The Office of the Chief Economist, which employed 14 FTE at the end of FY 2010, requires six additional FTE for a total of 20 to expand the use of econometric and analytic techniques to the swaps marketplace to gauge the effects of market activities and the regulation of those activities.

FY 2011 Budget

Before I conclude, I will briefly address the CFTC's funding levels for FY 2011. The President's FY 2011 budget requested an appropriation of $261 million for the CFTC to oversee the commodity futures markets and to prepare for oversight of the swaps market. The Dodd-Frank Act goes effective for Title VII in July of this year. I'll note that 2011 is a year mostly dedicated to rule-writing. The President's budget requested that we bring on new staff throughout this year so that they can be trained and ready for the agency to oversee the swaps market in the fall. The President's budget also called for an increase in CFTC staff for pre-Dodd-Frank authorities to keep up with the growing futures markets. Further, the President's budget called for a significant increase in the CFTC's technology budget to keep up with the rapidly evolving futures markets.

The CFTC currently is operating at the agency's FY 2010 operating budget of $168.8 million. This funding level, however, is simply not sufficient for the CFTC's expanded mission to oversee both the futures and swaps markets. I look forward to working closely with this Subcommittee to ensure that the CFTC is adequately resourced to police the markets and protect the public.

Conclusion

Financial markets are complex, global and interconnected, and they perform essential functions for American businesses. The derivatives markets allow producers, merchants, corporations, municipalities, nonprofit organizations, pension funds and other end-users to lower their risk by locking in prices and rates in the future. This helps promote a vibrant economy.

We recognize that the budget deficit presents significant challenges to Congress and the American public. But we cannot forget that the 2008 financial crisis was very real. Thus Congress responded and said that the swaps market must be regulated and overseen, significantly expanding the scope of the CFTC. It is important that we align the CFTC's funding with its expanded mission.

The Commission looks forward to working with the Congress and the Administration to address the challenges outlined here and to secure the necessary funding to strengthen market integrity, lower risk, protect investors, promote transparency and continue to restore health to the economy.

Thank you, and I'd be happy to answer any questions you may have.

Mr. KINGSTON. Thank you, Mr. Gensler.

Mr. Farr, do you have any statements?

Mr. FARR. No. I just hope that we can really get a clear understanding of the magnitude of your new role, of your extended authority. I mean, $277 trillion amounts of swaps is almost unimaginable.

Now they are telling us we have got to go vote.

And I really respect the idea that we have got to have referees in this game, and we need to understand, you know, what those referees need to have to do their job well.

But I have no opening statement.

Mr. KINGSTON. Thank you.

I think since we have about seven minutes or so before we need to go, we could get in at least ten minutes if you want to try.

But I will start and stay strictly on the time limit.

SPECULATION

Mr. Gensler, one of the questions that is out there, and this is not going to be directly a budget question at the moment, but on oil and oil speculation, that is one of the things that when gas prices go up, it is the fault of the speculators.

And it is a huge industry we know. It has to do with all kinds of different factors, but could you comment on that question? It has even been suggested in other committees that the CFTC has not done enough to rein in oil speculators.

So I guess the question would be: can oil speculators drive up the price of oil? And how do they do that? And is the CFTC the proper agency to monitor it or prevent it if it is abused?

Mr. GENSLER. The CFTC plays a key role in overseeing markets where hedgers meet speculators. It could be somebody who is a farmer who wants to lock in a price and get certainty for the price of corn or wheat at harvest time, and then a speculator might be the party on the other side, and that allows that farmer to invest and buy the feed and grain.

So similarly in the oil market, so speculators and hedgers meet in the marketplaces, and they both have a role in the marketplace in energy markets.

The role of the CFTC is to make sure those markets are transparent; that they're free of fraud and manipulation. They are, in essence, fair to the public, and that is a key role and, I think, the higher prices sort of highlight the importance of our engagement.

Congress also gave us something called position limit authority. That is to limit the burdens that might come from what is called excessive speculation. That is how Congress has laid it out since the 1930s. The Dodd-Frank Act expanded that to swaps as well, and part of the reason we have asked for an increase in funding is to help us actually aggregate the positions across the swaps and the futures market so that we can do our surveillance for manipulation in the energy markets across swaps and futures; that we can aggregate the positions for the position limits as well.

Mr. KINGSTON. All right. Now, the position limit authority, is that for one blanket industry or is that for individual traders?

Mr. GENSLER. The way Congress laid it out, again, back in the 1930s and revised it a bit recently is that it relates to parties who are not bona fide hedgers. A bona fide hedger is somebody who has the physical product in a merchandising channel.

So on the others, if we might call them speculators, it would apply to each of them individually, and that is how we have taken it up over the decades in working with the exchanges, and we put out a proposal in January of 2010 under the then law. We had 8,200 comments. We re-proposed it under Dodd-Frank, and the comment period closes in a week. We hope the public will comment, and we have already, I think, 3,500 comments.

Mr. KINGSTON. Can oil speculators drive up the price of oil?

Mr. GENSLER. I think speculators are part of a market. So they are part of pricing, whether it goes up or goes down. Speculators are part of a market. It is our role as an agency to make sure that if they meet in a transparent market, no one is cornering and squeezing it or manipulating that market, and that it works for the American public.

Mr. KINGSTON. Were they betting on a market trend or are they driving a market trend?

Mr. GENSLER. Well, it is often——

Mr. KINGSTON. And I know they can do potentially both.

Mr. GENSLER. It is often very hard to discern which it is, and that is why it is important to have an effective cop on the beat and also to have these effective position limits so that somebody is not so large in a market that they have a concentrated position in a market.

Mr. KINGSTON. We may come back to this, but I wanted to let Mr. Farr get in a round before we need to run.

All right. Now, Mr. Bishop was here first. So let your conscience be your guide. [Laughter.]

AGRICULTURE

Mr. BISHOP. The CFTC, because of its historical connection to agriculture markets, but the number and scope of non-agriculture issues, of course, has dramatically grown over the last few decades. And despite the importance of non-agricultural issues, agriculture issues are still a critical component of your work.

I am a little concerned that given the fiscal environment in which we are operating today and the inevitable budget reductions that every agency is facing in the federal government, including yours, that the CFTC's management of our agriculture markets could get the short end of the stick, if you will.

So how do we make sure that agriculture does not disproportionately pay for the reductions in your budget, combined with the growing pressures that you are under to expand your non-agricultural activities?

Mr. GENSLER. Congressman Bishop, we are honored to be in front of the Agriculture Subcommittee of the Appropriations Committee and overseen by the Agriculture Committees in both the House and the Senate. I think it is a good working relationship.

I do have some of the concerns you raise, if we are not able to secure the necessary funding. I know it is a challenge for you all. I mean, for us to come in and ask for more money, you know, I would rather be in another place, but to not secure that extra funding would mean we would have to shift some resources and shift resources from some of the traditional futures market, agriculture and energy to the financial markets.

The interest rate swap market, which makes up 80 to 90 percent of that swap market, that is, interest rate swaps, is not agricultural swaps. So what we do do every Friday, we have a surveillance meeting. Our five Commissioners meet in closed doors, hear from the surveillance staff. We talk about cotton, corn and wheat, soy, cattle, hogs. I mean, each Friday we talk about the agricultural markets almost every Friday, but I do fear what you are saying.

Mr. BISHOP. How do we assure that?

Mr. GENSLER. I think the best way to assure it is the president's request of $308 million, if I might say.

Mr. BISHOP. And you are trying to get some advanced budgeting, too, I think.

Mr. GENSLER. That is true. In 2011, and I know that you are all challenged, and I am not sure I would want your job; it is a difficult job you have, but the President's 2011 budget was to try to start to get some resources, both technology and people, to plan for when the swaps market would be coming in under our oversight later this fall, and it was for about 240 more people or $261 million. That is correct.

Mr. BISHOP. If we fool around and do not get that done, then you have got to make some other changes in order to comply with the congressional mandate.

Mr. GENSLER. I think we have to make difficult choices like we have already made. We have cut our technology budget this year from $31 million down to $21 million. It means that we are just doing maintenance technology rather than programming.

I think if we stayed at the $168 million, simply put, we would not be able to oversee, as Congress had asked us to oversee, both the futures market and the swaps market, this market that is about seven times larger than what we currently see.

Mr. BISHOP. Thank you.

I am not going to take all of my time. I yield back.

Mr. KINGSTON. Mr. Farr.

SWAPS MARKET OVERSIGHT

Mr. FARR. In essence, I mean, this swaps market is a relatively new, in historical purposes, responsibility, and you indicated it has just outgrown the futures market. I mean, I cannot even comprehend 277 trillion notational swaps, that amount of swaps, and you talk about the fact that there are new types of entities. There are the swap dealers, the swap execution facilities, the swap data repositories.

And then you go on to say, and this is what I do not understand, the swap market is more complex than the futures markets because it includes customized bilateral hedging arrangements. Whereas all futures trade on exchanges, some swaps will be traded over the counter.

What are customized bilateral hedging arrangements?

Mr. GENSLER. It is where a company wants to lock in a price, but they want to lock in a price on something that might not be so standardized that other people want to do it. An example might be an airline that wants to lock in the price of jet fuel on certain dates and months at a certain airport. Maybe it is an airport. I do not know your district well enough, if you have a small airport in Carmel.

Mr. FARR. In Monterey.

Mr. GENSLER. In Monterey. So the Monterey airport, somebody wants to lock in the price of jet fuel on a certain date in July. Well, another airline may or may not want to be on the other side. So that is an example of something that is customized.

Mr. FARR. Well, in light of the incredible activity that is going on, have you asked for enough money?

Mr. GENSLER. Well, I am also, I guess, an American citizen and conscious of the budget deficit. The President does lay out in the budget that in 2013 the thought is we would need to get to about 1,140 people.

When we look through each of our areas and said what do we need to cover the swaps market, we think that whether we are able to work with this Committee and Congress to get there in 2013 or later, we will need to be an agency in that 1,100 to 1,200 person range, and our technology will need to be significantly higher.

To put it in context, the financial services industry, the brokerage industry is much larger than CFTC. It has about 800,000 employees in brokerage, or 5.6 million in financial services, and it spends in the brokerage industry alone 20 to $25 billion a year on technology. We are spending, well, $20 million this year. We are asking for $66 million, but in technology.

Mr. FARR. In the security of the whole economic security of the planet, frankly, of the financial institutions depends on these good kind of regulators. When you have to do the duty for the intel community as well, I am sure, I mean, they must have some backup or monitoring you or just being aware what is going on.

Mr. GENSLER. Well, we are the first line of oversight for these very important markets, and as you said, it is hard to get your hands around such a market that is so large. But you can think that when you fill up a tank of gas, and it is costing more for a tank of gas these days, but if you fill up and you put $80 of gas in your tank, you can think somewhere in the economy there might be about $1,500 of derivatives behind it. I mean, you just do the arithmetic and multiply, and do not know where it was in the supply chain, but every part of the supply chain has benefitted because they can get certainty on a price in an otherwise uncertain world.

Mr. FARR. How do you do this? Is it looking for anomalies?

Mr. GENSLER. It is often using rule writing to set some broad parameters so that markets have to be transparent. Congress did it for us in Dodd-Frank, and then it is using technology, and the technology is the way to aggregate data and then build what is called automated alerts to see if something looks manipulative that we then investigate.

Twelve million contracts trade in the futures markets a day. Humans cannot oversee that. You need technology as well.

Mr. FARR. And that is traded 24-7 in the world globally?

Mr. GENSLER. The swaps market is. Most of the futures markets have a few hours off a day.

Mr. FARR. I have got some more questions, but we will go.

Mr. KINGSTON. We will suspend and be back as soon as possible. We have two votes on the floor. So get some coffee.

Mr. GENSLER. All right. Thank you very much.

[Recess.]

DEFINITIONS

Mr. KINGSTON. The hearing will come back to order.

Our members are somewhere between here and the Capitol, but Mr. Farr is about one or two minutes behind me, and he said to go ahead and get going.

I wanted to find out, and this should have been my first question, but some definitions that would be useful for the Committee, useful for the record, too. What is a swap? What does a swap do? Who is a major swap participant? Who is an end user? Who qualifies for the end user exemption? And for a major swap participant, what is a substantial position in swaps?

I am not sure how long of an answer that requires, but if you could walk through those with me. So what is a swap? You know, you do not have to define 100 percent of it. If you define 90 percent of it, that is helpful.

Mr. GENSLER. Okay. And if you will help me because I did not get the whole list, but I——

Mr. KINGSTON. We will just go one by one.

Mr. GENSLER. Futures contracts started way back in the Civil War time and got regulated in the 1920s and 1930s. Swaps started in 1981 and have grown in the last 30 years. they are mostly related to interest rates and currencies. It is where somebody, helps protect a risk of an interest rate moving up or down or a currency rate moving up or down. That is probably 80-plus percent of the market.

The next piece of the market Congress asked us to cover is commodity swaps. It would be if somebody was entering into a risk contract for oil at a certain point in time in the future.

And specifically excluded from swaps, and this is important for many end users to a later question, is if somebody is entering into contract to actually deliver the product. That is called a forward. I will deliver a car to a person. You might think of forwards in this case, I will deliver the oil or I will deliver the corn or wheat, or even have an intention to deliver. So forwards are excluded from the definition of futures and have been since the 1930s. They will be also excluded from the definition of swaps.

Another thing excluded from the definition of swaps is securities based swaps, and I see if I caught Chairman Emerson who has the other subcommittee and, the SEC has securities based swaps, and a lot of credit default swaps are securities based swaps because they are on an individual company. They are on an individual company or they are on a narrow group.

So the CFTC has interest rate swaps, currency swaps where the currency could go up or down, oil and gas, agricultural, metal swaps, and then a small group of swaps related to securities if it is on a broad base of securities, like the S&P 500.

But if it is on a small group or a narrow group, that is over at the Securities and Exchange Commission.

It does not include insurance. It does not include commercial loans. It does not include things that you think it does not include.

Mr. KINGSTON. And what about a swap dealer?

Mr. GENSLER. A swap dealer is defined in the——

Mr. KINGSTON. And I want to also ask even though I need kind of a working definition for members of the Committee; is there a legal definition that is in place so while the comment period is being made people know for sure what category they are in or out of?

Mr. GENSLER. There is a legal definition of swap in the statute. Congress did this in Section 721 of the statute, if I remember because I read it often, but the SEC and CFTC are working together on a joint rule to bring further clarification, and some of that further clarification is just where the dividing line is between the CFTC and SEC. And the interest rate swap people understand from the statute is covered.

On the dealer question that you raised, again, Congress addressed that. I do not remember that statute number. It might have been the same definitions section, as to what a swap dealer is. Somebody who is making markets; you can think of the large banks, but you can also think of what AIG once was doing as a dealer.

The CFTC and SEC put out a proposal to give further definition to that last fall. The comment period closed a few weeks ago. We have 170 comment letters. It's one of the rules that we think we should move early on.

I gave a speech yesterday when I laid out some sequencing and phasing of this, but I think that, as you suggest, Congress laid out it pretty specifically. We did the proposal in the fall. We got about 170 comments. We hope to move on that, finalize that this spring, if we can. Of course, it takes ten Commissioners, five at each Commission.

Mr. KINGSTON. And what is a major swap participant?

Mr. GENSLER. A major swap participant is a category Congress included in the statute that is likely to be a very small group of parties. It is somebody who is not a dealer, but would be regulated like a dealer, and what Congress laid out is this would be only if their net outstanding positions and swaps were such that they are so large that if that party failed, if they went bankrupt, it would have systemic ramifications.

I am sort of summarizing it, but again, the SEC and CFTC worked together on a proposal in the fall. The comment period closed a few weeks ago, but we set a number of thresholds in that.

If somebody were clearing all of their swaps, they would not likely meet these thresholds, but it was more if they had these customized swaps that Congressman Farr and I were talking about before, and they were substantial enough, and they did not have a margin or collateral on them and we had a series of numbers. Certainly we can get back to you with those numbers.

I do remember one was that there was $5 billion of overall exposure. So that is not the notional amount. You could have far greater notional amount. You could have hundreds of billions maybe, but it is just if you defaulted today, what would be your exposure to your counterparties that is not covered.

And I think Congress meant it to be a small number. Frankly, from the commenters, we think it will probably be maybe a handful of parties at most would fall into that category.

Mr. KINGSTON. Okay. When we get back, I do want to find out definitions for end user and talk about the end user exemption a little bit and major swap participant and the clearing house or the SWF. I think it is just very helpful for our Committee to understand as many of these basic glossary terms as possible.

Ms. Emerson.

PROCESS FOR WRITING RULES WITH SEC

Mrs. EMERSON. Thanks, Chairman.

I am sorry I am late. My own subcommittee is going, and I have got to get back to it, but I have got one question just with regard to swaps, and then I have something else I want to ask you that is sort of a CFTC–SEC question, as you can imagine.

So do you think that the Dodd-Frank law will, in fact, prevent the type of or at least make more transparent the whole credit default swap situation that we encountered with AIG?

Mr. GENSLER. I think so. I think that the SEC will have a lot of that jurisdiction, those types of swaps, but between the CFTC and SEC, Congress said let's bring transparency, and it did it in about five or six ways. Those that are standard enough would have to be traded on swap execution facilities.

Mrs. EMERSON. What does "standard enough" mean?

Mr. GENSLER. If it can be cleared at a clearing house, and there would have to be public comment, we have to put all of these things out to public comment and run a 60-day process, which I think is really helpful. But if it can be cleared at a clearing house and then in addition that a trading platform called a swap execution facility makes it available for trading, and lastly, that it is not so large to be a block because if it is large enough to be a block, then Congress said we do not want to disrupt liquidity there.

The second way that Congress said that there would be transparency is that all credit default swaps, as well as interest rate swaps, after there is trading in it, have to be reported in a timely way. It is called real time reporting, and I think that is very important.

One of the things in AIG that happened that Congress addressed as well is AIG and their counterparties could not agree on the values after they entered into these transactions. For years there can be valuation disputes. So Congress weighed in, and I think it is a really important thing that lowers risk that these swap dealers have to share with their counterparties on a daily basis how they are valuing the contract for the years to come.

And we have published some rules, and I know the Securities and Exchange Commission has as well, about that daily valuation.

Mrs. EMERSON. That does sound like it is a stronger incentive to do the right thing, I guess. So between you and the SEC, well, the SEC has got about 100 new rules that they have got to get done, and you have probably a similar amount, but when Chairman Schapiro was up here the other day, she made clear that they were working through the rules on a very deliberate basis as opposed to just trying to get them all done, which I agree with. I think it is much better to take your time and do it right because sometimes there are unintended consequences as we all know.

So do you expect to meet your deadlines?

Mr. GENSLER. No.

Mrs. EMERSON. Okay. So what do you do then in the meantime? I mean, can you still implement sound policy without having a regulation to force that?

Mr. GENSLER. What we have been able to do we do not have as broad a portfolio as the SEC.

Mrs. EMERSON. Right.

Mr. GENSLER. We really swim in this very deep lane called derivatives. We swam in the lane in futures. Those markets worked pretty well actually through the crisis. And now Congress has asked us to swim in a lane that is 7 times deeper, the swaps lane, but it is still derivatives.

We have put together 30 topic areas to do rules in. We have published 28 of those 30. So we have a little bit of a natural pause here. There are more rules because sometimes we publish more than one rule on a topic, but I think we have published 42 or 43.

We have a handful left. To answer your question, we think we will take up this entity definition, the end user exception, some process rules, and some rules that are actually just a little easier to get to, privacy and so forth, the definition of agriculture commodity. In the springtime we are hopeful, but we are not going to come to any rule until we adequately summarize public comment, we adequately get Commissioner feedback, and we adequately talk to other regulators and coordinate.

So we, too, do not believe in rushing anything. There are the other rules that are going to come in the summer and maybe even into the fall that will be finalizing rules. So there is a July date in the statute.

Congress has also given us, I think, important latitude to phase implementation. So even if we finalize a rule in May or June, it might be dependent upon another rule, in a sense, the product definition that the Chairman referred to. So we can finalize a rule and say, "But it is not effective until the other rule is finalized," so that people have adequate time to know what the whole mosaic is, and then also have an adequate time to change their back office and technology and their spending.

Mrs. EMERSON. Mr. Chairman, can I just ask one quick, quick, quick follow-up?

Mr. KINGSTON. Yes.

Mrs. EMERSON. So how does the exact process work where you and the SEC actually have to both agree on a rule and you have got five Commissioners and Mary has got five Commissioners? How does this all work?

Mr. GENSLER. Well, if it is a joint rule, it cannot even be published in the Federal Register until both Commissions vote. So what we have done, Chairman Schapiro and I, I mean, I am closest with my three daughters and then maybe my fellow Commissioners, but then it comes to Chairman Schapiro and myself. We talk often.

We come to a draft term sheet together. We try to socialize that term sheet with our Commissioners, get feedback, and then the staffs start to write the document, and we try to share that full document with the ten Commissioners, get feedback, continue to negotiate.

The proposals we try to schedule on the same day. Sometimes they are two or three days apart, but we——

Mrs. EMERSON. So how long does it take? Well, the easy ones, forget that. The more difficult?

Mr. GENSLER. Well, the product definition rule, in part, is because it has to be joint.

Mrs. EMERSON. Right.

Mr. GENSLER. We are still socializing and negotiating.

Mrs. EMERSON. All right. Thank you very much.

Mr. KINGSTON. Mr. Farr.

EFFECT OF CUTS IN FUNDING

Mr. FARR. I would like to sort of put this a little bit into perspective and have a better understanding of, you know, what we have been through. I mean, just the title you have of Commodity Futures Trading Commission, I do not think I have many constituents that really understand what that is and what you do. Yet they all know that we had a huge crisis in this country that sort of started on Wall Street, and it had to do a lot with exchanges.

And out of that Congress had oversight hearings and came up with the Dodd-Frank and proposed that we really grow your regulatory role, and we are in the process of doing that, even in a field where people do not understand much about it.

And yet there is already some push-back, that we should not be doing this. You are growing too fast, and I notice that in H.R. 1, which was the bill that passed the House, there was a $57 million cut in your existing budget for this year, 2011.

What would that cut do, and who are your enemies out there? Who does not want you to be able to have a better regulated market?

I mean, where I come from certainty is investment, and in politics all my life, local government, State government, and federal government, the rulemaking, the laws that we make essentially are to provide some certainty that bad things will not happen and that if you do these things and follow the rules, you will have a fair game, a level playing field.

I thought it was interesting in your comment to the Chairman—you are both Chairman, but to this Chairman, our Chairman—and I would like to hear more about it, that essentially in the oil, whether the trading creates a higher price for gasoline, for oil, and your response was, well, our role is to make a level playing field, at least to have transparency so that the fairness of the game is understood.

Mr. GENSLER. Right.

Mr. FARR. So what happens if we get a $57 million cut out of your existing budget, plus do not give you the more, when, indeed, you are talking about a whole new world opening up there with derivatives and swaps and stuff that we have never really deal with in the past?

Mr. GENSLER. Well, it depends somewhat when it would happen. If it were to actually happen in fiscal 2011 and we were to have to go to $112 million funding for the whole 12 months, though we are six months into the year, we would not only have to go back to the head count that we had in 2008, which was about 440 and we are at 670 now. We would have to actually cut not just 230 people, but probably twice that because we are halfway through the year.

It is arithmetic, but I mean, it is——

Mr. KINGSTON. If the gentleman will yield though, you have enough staff right now to write the rules. So we are not talking about the rulemaking. We are talking about moving from that point on.

Mr. GENSLER. Mr. Chairman, you are absolutely right. At the $168 million funding, we have enough staff to write the rules, and they are talented, dedicated staff.

To Congressman Farr's question, if we were to actually go to $112 million, we would not have that. We would actually probably have to do a reduction of force of 60 or 70 percent of our people if it happened midyear for the full year.

Now, that is just arithmetic, and I know that your question is more toward going forward. If we stayed at the 168——

Mr. FARR. Well, I mean, obviously as the Secretaries have said, if this cut takes place right now, your only ability is to cut personnel because you do not have time to do any planning.

Mr. GENSLER. Yes, we are not an agency with grant money. So we really just have a little over 60 percent of our budget is staff; about 18 percent is technology; and 7 or 8 percent is space. You know, you have the leases.

So if it were to happen in the middle of the year, and so that the markets that we oversee would not have an effective oversight, the exchanges work well in the futures market right now, but they work with an effective regulator called the CFTC. We would not be able to take up anything in the swaps marketplace, of course, and even our ability to oversee the future marketplace.

I do not think the public could have the confidence in the futures market at $112 million.

Mr. FARR. There would be less certainty and more speculation and more risk, and so on. But what about who are your enemies? Who does not want this to happen?

Mr. GENSLER. Well, I think that we are a good investment to the American public. I think that it helps because transparency levels the playing field, and all of the companies that want to get certainty can work in a marketplace that does not have manipulation and fraud and has competition.

It does shift some of the information advantage from large institutional participants in the financial markets.

Mr. FARR. Because of transparency.

Mr. GENSLER. Because of transparency, and I think that is what Congress addressed in the reform bill, that there will be transparency and will lower risk through the use of clearing houses. So it shifts some of the advantage actually to the farmers and ranchers and energy users and the corporations and local governments in all your districts because they can rely on a market that they have more confidence that it is fair.

Mr. FARR. Thank you. A good answer.

Mr. KINGSTON. Mr. Nunnelee.

AUTOMATED SURVEILLANCE

Mr. NUNNELEE. Thank you, Mr. Chairman.

Thank you for being here. I am new and I am still learning, but I do bring my experience in private business.

In your budget request you request funding technology to automate surveillance. What kind of surveillance are you going to be conducting and when does it stop?

Mr. GENSLER. The surveillance we do now, we are fortunate in the markets we do oversee to get the entire positions and the transactions on a next day basis. So, for instance, when the May 6th events occurred, when the markets gyrated quite dramatically that day, the very next morning our staff was able to have the data files, very large data files, and use computers to look through them.

But we also do surveillance in the cotton markets, the wheat and corn markets, as well as the financial markets, and meet as a Commission on a closed-door basis every Friday to hear from the surveillance staff. Sometimes it is a position limit violation. Sometimes it is something that is called a wash sale or trade practices. Sometimes it is a potential manipulation, and we have to dig into it.

Most of the markets work well, but there are thousands of participants. So there is always somebody doing something I can tell you from the Friday meetings. So that is the nature of surveillance, and it gives confidence to the market that there is somebody looking closely at the markets.

We also aggregate the data, and we try to put it out. Every Friday we put out something called a Commitment of Traders report. It is in the futures market. We would like to extend that to the swaps market, and a lot of the data you will see, whether it is on the nightly news or even members of Congress use it in their letters to us, quotes our Commitment of Traders report because it aggregates the data, and you start to have transparency that way as well.

Mr. NUNNELEE. All right. So who monitors your surveillance? Who is looking over your shoulder?

Mr. GENSLER. Well, you are, Congress. I mean, we welcome the oversight. I think it is a good thing for the American public. We have an independent Inspector General as well. We have, of course, annual audits.

And in terms of the surveillance of the markets, the exchanges themselves have a self-regulatory function, and we do rely on them often as a first line of defense as well, that the markets themselves, the Chicago Mercantile Exchange and the Intercontinental Exchange and so forth.

Mr. NUNNELEE. I am reminded of a store we had in Mississippi 40 or 50 years ago. The governor sent prisoners from the penitentiary in Parchman, MS up to Little Rock to get mules. They were trustees in the penitentiary. So he felt comfortable doing that.

Well, they made it to Little Rock and enjoyed their freedom, and instead of coming back home, they went on to Texas. Eventually they were apprehended, but the governor made the observation. He said if you cannot trust the trustees, who can you trust.

So I just think it is important that I ask that question.

A final question. As you are adding automated surveillance, other companies in the marketplace are replacing personnel with automation, and that is the way they are achieving efficiencies. But you are asking for money for additional automation for surveillance as well as additional personnel. Why can't you make do in the same manner that private business is doing all over America?

Mr. GENSLER. It is an excellent question, but if I can analogize, our market share is growing. We cover something called the futures marketplace that has existed for about 150 years, but we do not cover the swaps marketplace that existed for 30 years, and those are both in this lane of derivatives. And so we are being asked by Congress to take on something about seven times the size of what we are taking on now.

So thus, we have asked for about a doubling of technology and 45 percent increase in staff. I wish it was just all technology, but it still takes some people to oversee the markets and bring the Ponzi scheme cases and the like.

Mr. NUNNELEE. All right. Mr. Chairman, I have got other questions about personnel, but I will get those in the next round.

Mr. KINGSTON. Mr. Bishop.

SWAP EXECUTION FACILITIES

Mr. BISHOP. Thank you very much.

I am interested in exploring the line of questioning that Mrs. Emerson had started. As part of the Dodd-Frank bill, swaps trades are required to be done through the swap execution facility, a swap SEF. Most market participants will then have to register with the CFTC, namely, swaps dealers and major swaps participants.

As I understand it, swap execution facilities will be regulated jointly by the SEC and the CFTC. If this is correct, I am curious to know how the oversight will be divided and who will have the final call when issues arise.

How do you plan to avoid the issues of regulatory arbitrage and agency sapping by the regulated entities?

With the budget situation being as difficult as it is, to what extent are you going to cooperate with the SEC to create and maximize efficiencies and to avoid redundancies?

Mr. GENSLER. We are working very closely with the Securities and Exchange Commission at all levels. What Congress did, and we are following is to draw a bit of a dividing line. So some products will be clearly regulated by the SEC if it relates to a single security or a basket of securities.

We are a regulatory agency that oversees risk markets, and they oversee capital formation and investor. The risk market's interest rate swaps would just be, for instance, over at the CFTC, hedging of risk of an interest rate moving up and down, as would the oil markets and agricultural markets.

So mostly it is just divided by product, and that will avoid a lot of, as you say, the regulatory arbitrage. I wondered if I might say one other thing. We will regulate the swap dealers. We estimate there may be in the order of 200 or so legal entities that will be swap dealers. In some cases there will be three or four in the same bank. So it is actually fewer than the 200, and for major swap participants we estimate just a handful.

The tens of thousands of users of these products we will not be directly regulate.

Mr. KINGSTON. Thank you, Mr. Bishop.

END USERS

Mr. Gensler, getting back to my question on what an end user is and, therefore, who qualifies for the end user exemption.

Mr. GENSLER. In the statute if somebody is not a financial entity and is using the swaps for commercial hedging, they do not have any requirement to use a clearing house. So we published a rule in the fall. It is one of those that we hope to try to finalize in the early phase.

And we gave more clarification. We in essence said if this commercial firm is hedging an input, hedging a liability, hedging something now or in the future, hedging a currency, we gave a long list of things; you are out. I think we were broad enough, but we got a lot of comment letters, and we will still summarize those comment letters, but the congressional intent as we understand it is if you are not a financial entity and you are hedging something, almost anything—the Congress did not say what—then you do not have to use a clearinghouse.

To go further, Congress separately gave authority in regulating the dealers, these maybe 200 or so swap dealers, to set margin at these swap dealers; that the swap dealers might collect or pay margin to lower risk in the system. And as we move forward with this, we only oversee the non-banks and the SEC similarly the non-banks, but it is our intent to try to publish this in April, but consistent with congressional intent in the clearing requirement, these end users would be outside of the margin requirements as well.

SEQUENCING

Mr. KINGSTON. Well, this slowly gets us back to Mr. Bishop's and Mrs. Emerson's question in terms of the sequencing of the rulemaking because we do have people telling us that these definitions are not set quite clearly enough for them to comment because they are not sure which direction they are going in.

And one of the statements, and I am not sure what the independent estimate came from, but CFTC said that the cost benefit analysis for confirmation portfolio reconciliation and portfolio compression rule was going to be $2,400 an entity, but one study said it actually could be millions of dollars per entity.

And then for regulations establishing and governing the duties of swap dealers and major swap participants, the CFTC said it should be about 11 percent of one full-time employee, but an independent study showed it could be as many as five employees would need to do that. So it is a pretty big difference.

Mr. GENSLER. One of the things that we have directed staff to do is to summarize all that we hear from the public on cost benefit analysis, a very important part of our rulemaking. In fact, it is in our statute itself, the Commodities and Exchange Act, to do cost benefit analysis.

The best place to hear it from is actually market participants, and before we move forward on any final rules, we will be not only summarizing them but considering them, and each of the five Commissioners will take that into account.

Some of those facts and figures you mentioned might be also that we also do estimates in the paperwork reduction piece of rulemaking. So I am not sufficiently familiar with each of the estimates in each of the rules for this hearing, but sometimes the commenters address that.

MAJOR SWAPS PARTICIPANT

Mr. KINGSTON. Okay, and then major swap participant and a substantial position in swaps, what are those definitions?

Mr. GENSLER. A substantial position in swaps is in the statute only as it relates to this definition of major swap participant.

Mr. KINGSTON. And that is the smaller group that is regulated like a dealer but does not deal in it?

Mr. GENSLER. That is correct, and it is really meant to be a very small group that might have a systemic effect on the whole country. The numbers——

Mr. KINGSTON. Those are the major kind of name brand Wall Street firms?

Mr. GENSLER. The major Wall Street firms are most likely to be dealers. I mean, they have been dealing in the trillions of dollars of swaps. I think that——

Mr. KINGSTON. Who are some of the names of them?

Mr. GENSLER. Of dealers?

Mr. KINGSTON. Of a major swap participant. Just who are some of those? Are those household? Because if I understood you now, you are saying swap dealers are more the kind of Main Street/Wall Street dealers.

Mr. GENSLER. That is correct. That is correct.

Mr. KINGSTON. And so who would be the major swap participants? And does everybody know where they fall at this point?

Mr. GENSLER. Tens of thousands of people know because they are not. The two or three or four who think they might be have been coming in either to the Securities and Exchange Commission and CFTC to comment on the role and even at the end of the day they might not be. You know, it is really just that few.

Mr. KINGSTON. Okay. And my time has expired, but getting back to the Emerson-Bishop line of questioning on these definitions and on the sequences of the time, because you are looking at so many rules, I think what we were kind of moving toward is, well, which rules do you really think will be in place, and when and which ones will not, but we can have another round on that.

Mr. GENSLER. Okay. I think I could address it for any member whenever you wish.

Mr. KINGSTON. Mr. Farr.

PROBLEMS RELATED TO DERIVATIVES

Mr. FARR. Well, go ahead. I mean, it seems to me, I mean, I am pretty naive at all of this, but I mean, swaps are a general term for all kinds of instruments, derivatives, and all, and it is just an exploding market. I mean, you indicated that it is how many bigger than the futures market?

Mr. GENSLER. About seven times the futures market.

Mr. FARR. And growing exponentially?

Mr. GENSLER. It is growing pretty quickly.

Mr. FARR. And, therefore, this is a whole new area that we are getting into and regulating, right?

Mr. GENSLER. That is correct.

Mr. FARR. And so people are saying, well, go really slow and do not spend a lot of money to do it, and others are saying we are way behind. Get as many referees in there as you can, and it seems to me at least you are able to defend the request.

I would think that it is not even near enough because what we have not been talking about, it has been pretty technical, but all of the Ponzi schemes that have been broken up, and perhaps you ought to talk about some of the enforcement and why is it that people do not want this to be regulated?

I mean, you said that there are some big actors in there that they know how to play the game, but in the process there may be some injury, uncertainty, a lack of transparency, and people get hurt. And the people you talked about getting hurt are the small people, are the farmers and producers.

Mr. GENSLER. Well, I would actually go further. The people who got hurt were the American taxpayers. I mean, there is over seven million people still out of work that do not have jobs.

Mr. FARR. Not all because of the futures market though.

Mr. GENSLER. No, but a lightly regulated company called AIG was very heavily involved in the swaps market and it was ineffectively regulated, and it was a big gap in our regulatory structure. It was not the only reason for the financial crisis. We had an asset bubble. We had a lot of things going on in the housing markets, a lot of things, but the swaps market played a critical role in this crisis, and millions of people are still out of work and other millions of people have homes that are worth less than their mortgages.

Mr. FARR. Well, much less the pensions lost, the tuition for their children. I mean it is the tragedy of all of these kinds of Ponzi schemes which happened all around me. I mean, in my area it is dramatic the number of people that were taken.

Mr. GENSLER. So we currently in our enforcement area bring cases called Ponzi schemes where somebody is putting themselves out as an investment advisor but usually using an investor's money to defraud somebody else and saying, "I have got these returns."

And we bring dozens a year, and usually in the foreign currency area. You see them also in the commodity space. We only do that in futures. We do not have oversight yet to the swaps marketplace. It is a very important thing.

We are asking for resources in our enforcement area. We have about 165 to 170 people. Right now our 2012 request is to take that to 235 people, about 65 more people in that area because of the expansion of the marketplace.

Congress also gave us new authority in the anti-manipulation area that will help in markets, in the energy markets and the like, for the first time; that we would have a broader anti-manipulation authority as well.

Mr. FARR. How could you step in and tell somebody who might speculate on these oil prices that you might be able to, with your rules and regulations, be able to step in if, indeed, it was doing something that is not authorized?

Mr. GENSLER. We picked up in the manipulation area some authority similar to what the Federal Trade Commission and FERC and the SEC have to pursue what is called fraud based manipulation.

Mr. FARR. Enron.

Mr. GENSLER. Well, historically we have had a price based manipulation authority, and I think Congress saw that what the FERC, and the FTC, and the SEC had might be good for us to have as well, and so it is basically if somebody is using fraud to manipulate the markets. We have a proposed rule out, we have not finalized that yet, but it is a broadening of our authority that I think will be important in these markets.

Mr. FARR. Thank you. My time has expired.

Mr. KINGSTON. Mrs. Emerson.

Mrs. EMERSON. This is really hard to do in five minutes, Chairman.

Mr. KINGSTON. We will have lots of rounds.

INTERNATIONAL

Mrs. EMERSON. I know. I know. Okay. Let me just ask you one more question. With regard to AIG, this is not my line of questioning, but Mr. Farr's question prompted my interest.

With regard to AIG, do you believe that if we had not gotten rid of Glass-Steagall that AIG would have been able to engage in the types of activities it did?

Mr. GENSLER. I think AIG probably started their Financial Products Unit before that law was passed.

Mrs. EMERSON. Before.

Mr. GENSLER. If I remember the history, and that AIG was an insurance company. So I think, respectfully, I think they were already in this.

Mrs. EMERSON. Okay. I just wanted to know.

Mr. GENSLER. I think.

Mr. KINGSTON. And if the gentlewoman will yield.

Mrs. EMERSON. Yes, sir.

Mr. KINGSTON. It was AIG, London primarily, wasn't it?

Mr. GENSLER. AIG Financial Products was in Connecticut and London. It happened to be that the head of it was in London. You are correct, but they had personnel both in Greenwich, Connecticut and London.

Mr. KINGSTON. And I was going to follow that line later, but I just wanted to——

Mrs. EMERSON. No, no, no. that is okay because I am going to go back to something else.

Mr. KINGSTON. Because one of my questions does have to do with you are dealing with multinational countries, and a Dodd-Frank here might not help in Germany, for example, you know, or a company that is located in Germany or London.

Mrs. EMERSON. And I was actually going to ask, and we can share the time and then you can give me extra. [Laughter.]

So all of the regulations that we will put in place to try to at least know what is going on better in the marketplace, you are coordinating it with your counterparts in the G20 countries?

Mr. GENSLER. Yes, we are. We actually had a group of 18 different countries join a CFTC conference just two days ago, but that is just an example. I will be in Brussels next week. I am able to take my daughters. It is vacation, too, but I am going to go to Brussels and Paris and coordinate more there.

We are making very good progress. The European parliament is taking up a bill actually this spring to do things very similar to the derivatives portion of Dodd-Frank, not the other portions, but derivatives.

TECHNOLOGY

Mrs. EMERSON. All right. Because obviously, the more coordinated we are, the more opportunity we have to prevent another meltdown like we had before.

Let me ask you about the flash crash last year and/or algorithmic trading, which is a word that I have trouble saying. I know that the committee that you all set up with the SEC suggests that regulators need to be more forward thinking toward these emerging trends, and so my question is: do you have the tools necessary to keep up with, you know, every new trend that emerges?

Mr. GENSLER. Frankly, not yet. What has happened in the last ten years is the markets have increasingly gone electronic. I mean, the American public thinks of the floor of the New York Stock Exchange or the floor of the Chicago Mercantile, but now well over 80 percent, about 85 percent of our futures markets we oversee are electronic trading. That does not mean they are algorithmic, but they are electronic.

And so we have to enhance our technologies, as other members have said, but also our people to stay abreast of that and to aggregate that data and properly surveil that data.

Mrs. EMERSON. Yes, and I think you did a good job in going through the new investment in technology and really going through step by step by step, but interestingly enough, my subcommittee, we just had Vivek Kundra of the CIO for OMB and really for the entire Government and the GAO and GSA to talk about technology and the fact that we have squandered billions and billions and billions of dollars.

And so my question is with this very detailed plan that you have for new investments in technology, has that, number one, been coordinated through OMB? I mean, one of the things that Kundra told us is that, you know, you are wanting to do this. We know about the flash crash that happened last May-ish or whenever it was, and the fact is that it takes so long to get the new plans through OMB and/or all of the people that you need to get it through that when you get your new equipment, if in fact it is the right thing, then it is going to be obsolete already, and so obviously they are trying to make a lot of changes, and I applaud that greatly.

But is this all coordinated, I mean? And have you coordinated with the private sector? Because obviously if you need to do something that can keep up with what is being traded on Wall Street, then private sector expertise is the best thing for you to use at least for ideas.

Mr. GENSLER. Right. So we do coordinate with OMB and the $66 million request and the details behind that with OMB. The actual implementation as an independent regulator, and this is true at the SEC, we are not then going back on every contract with them.

Our coordination with the private sector is very real, especially on data feeds. We are going to need to link data feeds to these data repositories, and I think it was good that Congress said the data could actually be held outside of our agencies. The SEC, CFTC, we do not have to build the data repositories, but we have to build links and then Congress actually included something I really like. It said those data repositories have to provide us direct electronic links, but we still have to build them, pay for them, make sure that the computers can talk to each other.

Mrs. EMERSON. And how long do you anticipate this is going to take?

Mr. GENSLER. I think it is a multi-year process, and the reason is, of course, we have to finish the rule writing, which I think hopefully we will do this year. We are human. I mean, the date is July, but some of this is going to be well into the fall, and I think that the data repositories then have to get up and running and we have to, working with you, get appropriate funding.

I mean, a lot of it is a funding challenge as well.

Mrs. EMERSON. Well, Mr. Kundra did say that they are really trying to push everybody toward cloud computing because it is much, much more efficient, much faster, and certainly a lot cheaper, and that way you do not have to build entire, huge IT systems for yourself, but rather you can use the cloud computing or the Internet based platform, if you will.

Mr. GENSLER. Well, in this case, though I would not use his term, I think Congress had foresight in saying there could be outside data repositories. They can charge others for that data service, but they have to have a direct feed to the regulators so we can look into that data and have transparency to police the markets.

Mrs. EMERSON. Okay. I appreciate that. Thanks.

Mr. KINGSTON. Mr. Bishop.

Mr. BISHOP. Thank you. Along those lines, earlier you mentioned the resources, and you compared and contrasted the resources you have, the resources that you're requesting with the resources of the entities that you'll be regulating.

Could you kind of go back through and kind of lay that out again, to make it clear? Because it appears that even with what you're requesting to accomplish, particularly with the IT—and I think you talked about the investment that the commercial entities are putting into their IT, which makes yours really look antiquated, that, you know, you're going to have all you could do to keep up with it, even if you got what you're asking for with personnel and IT updates.

So I'm really wondering, how are you going to assume that we go through this process? Will you effectively be able to keep up, and do what you're charged with doing, without being so far behind, because they're expending so much more resources on the best IT, so that they actually can run faster than you can.

Mr. GENSLER. Right. The Commission has a technology advisory committee chaired by one of our Commissioners, Scott O'Malia. And recently, they reported to us, as to a lot of technology issues.

But the TAB group talked at that—that's an outside consulting group—and said that they estimate the brokerage industry spends $20 to $25 billion per year on their technology.

We spent $31 million last year. We spent less than the industry spends in a few hours.

Mr. BISHOP. I'm sorry, the industry spends how much?

Mr. GENSLER. $20 to $25 billion a year.

Mr. BISHOP. Billion. And you spend $25 million.

Mr. GENSLER. And we spent $31 million last year and $20 million this year under the—so my math isn't quick enough, but it's probably what they spend in, you know, five to ten hours.

The point is not the relationship, the point it is a very large industry with hundreds of thousands of employees, and millions of transactions per day.

We're not asking for more than $66 million in that category. I know that your challenges are enough that we won't ask for more than that.

But what we're looking to do is try to build over a number of years the pipelines, the interfaces with these outside data repositories. The outside data repositories will probably be spending very many multiples of what we're doing.

And I think Congress had foresight. Let the outside build the data repositories. At least, we have the data links, and then we have to build the software. That $66 million, the increase of about $35 million, most of that is for software applications, to build the applications to do, in essence automated alerts into the data; but let somebody build the warehouses, and so forth.

Mr. BISHOP. Yeah. But you also got to have the personnel to analyze that, once it's captured.

Mr. GENSLER. That is correct. And the personnel in some circumstances to bring enforcement actions.

Mr. BISHOP. Exactly.

Mr. GENSLER. Because judges want people in front of them, not computers, of course.

Mr. BISHOP. Right. So unless you get all of that, you still can't do what Congress had mandated that you do?

Mr. GENSLER. It's a large market. We have excellent staff. But I am in front of this committee, suggesting if, with your help, that we try to build the resources to be sufficient for the mandate that we have.

Mr. BISHOP. You're so diplomatic. Thank you.

Mr. KINGSTON. Mr. Nunnelee.

CONSUMER EDUCATION

Mr. NUNNELEE. Thank you, Mr. Chairman.

In your testimony, you talked about enhancing consumer education, consolidating consumer education, and protection functions into a single office. Can you elaborate about what that would entail?

Mr. GENSLER. We had shrunk in our staff in the last decade. And this is something that a number of the Commissioners and I have talked about for the last couple of years, that we really would want to have a dedicated function here.

We're a little different than the Securities and Exchange Commission, where there's a broad investor public. But still we think there's a role to play to help the public understand and protect themselves against fraud and Ponzi schemes—basically bad actors out there, pretending to make a return—like Bernie Madoff did in a very bad way—but pretending to make a return, investing in foreign currency or in commodities.

And so it would be a very small office. We could get the exact numbers. I just don't recall them. But Mark Carney, our Chief Financial Officer, is here, and maybe could help me while I'm sitting here. I can't remember the exact numbers in the office.

[Discussion was held off the record.]

Mr. GENSLER. Yeah, so it's initially three to five people in the office.

Mr. NUNNELEE. How will you go about communicating this information to the consumers?

Mr. GENSLER. We haven't stood up the office yet. So we think it's a very real need to have the office. We also have a new whistleblower responsibility, or authority, that we have to stand up, as well.

So I think some of those plans are yet to be formulated. But certainly, we'd have to leverage with just a few people. We'd have to leverage the Internet and leverage, you know, public messaging that way, so that people can better understand and protect themselves.

Mr. NUNNELEE. All right. And then you're asking for roughly 300 new employees?

Mr. GENSLER. That's correct.

Mr. NUNNELEE. My concern is this first step, and you'll be back next year, asking for more, and it's going to lead to more buildings and leases, and equipment, et cetera. Can you help me with concern?

Mr. GENSLER. We've included in the budget what we think is adequate space in leasing. I feel quite good about that.

In terms of the people, if I could use an example. We currently oversee fourteen clearinghouses. A clearinghouse stands between two parties to these transactions, so that if one of them defaults, the taxpayers don't have to pick it up, basically.

I mean, that's the core of what Congress said.

We expect that to grow to 20 or 21 clearinghouses. We already have the six knocking on our doors. I mean, this is not just an estimate, that is a guess. I mean, actually I could name them for you, and so forth.

And so the example, as we have about 40 people currently, who oversee those 14 clearinghouses. It's growing by 50 percent. We think we need 70. That's 30 more people.

And so the detailed budget goes through each of the areas' estimates. We're trying to be like a businessman. And I grew up, my dad had a small business. And I was on Wall Street for 18 years.

We've tried to sort of think through in each place these numbers. And that's just one example.

Mr. NUNNELEE. All right. Thank you, Mr. Chairman.

Mr. KINGSTON. Thank you.

OWNERSHIP LIMITS

Mr. Gensler, I wanted to ask a little bit about a question specifically about the Lynch amendment, which was added to the Dodd-Frank bill in the House on a narrow vote. It has to do with CEF ownership limits. And it was not in the original bill. And then it fell out in conference.

But I understand that you guys are pursuing it, even though it wasn't part of the final package. Is that correct? Or what are you guys doing on it?

Mr. GENSLER. The final bill included Senate language, that specifically is a provision on conflict of interest. Over there they might call it the Senator Sherrod Brown provision.

But conflict of interest was in the bill. And so the SEC and CFTC made proposals in the fall with regard to ownership limits. And we're still sorting through those comments. But it does have ownership limits on swap execution facilities, as the chairman asked, where no one party could have more than 20 percent ownership, but there's no aggregate limit.

Mr. KINGSTON. Well, if it was specifically rejected by the Senate, then isn't that a statement that they did not want that? Are you're saying, "Well, they dropped it because it was elsewhere in the bill"?

Mr. GENSLER. No, actually the conflict of interest provision, I believe all of the rules we've proposed are consistent with what Congress has asked, and certainly we're looking for your comments and the public comments, so that the final rules will be different. They'll change, based on those comments.

But this area, Congress spoke specifically to conflict of interest, and it explicitly talks about ownership limits. It doesn't set any of those limits. It leaves it to the regulators to make proposals. And so——

Mr. KINGSTON. Yeah. Why don't we both go back. Because I'm confused on that. As I understand, it did pass the House, but it was rejected by the Senate, and so maybe we could figure out why it was rejected.

Mr. GENSLER. Right. It's correct that it's not—it was a different provision from the Senate.

Mr. KINGSTON. And here's what I'm concerned about. These businesses are almost liquid, you might say. They rent facilities, their offices. But their product, if anything, is somewhat in their head and on their computer and in their laptop.

And if our regulations get to be too onerous, they're multinational, they close up in America, they reopen elsewhere. And at the 2009 G20 meeting, it was discussed that we'll all walk together and be in sync.

But elsewhere you've said we're going to be ahead, and maybe as much as a year and a half or at least a year ahead on rules and regulations. And it would appear to me during that gap, that American-based companies would be at a competitive disadvantage internationally, because they would be living under, you know, the brand new set of rules that their international counterparts don't have to abide by.

Or they could just say, “Well, you know, there’s a lot of money to be made in that one-year period of time. Let’s just relocate for a year and see what happens.”

And you know, we see this in lots of industries, when the regulatory burden gets too much in America, they move. But this group, since they really don’t have plants and machinery and huge labor issues, they can transplant pretty quickly.

Mr. GENSLER. U.S. companies, I believe, will benefit from the provisions in Dodd-Frank. Markets work best when they’re transparent, open, and competitive.

The Wall Street firms, to which I think you may be referring, whether the Wall Street firms—I mean, tens of thousands of American companies will benefit from what Congress has done and the rule-writing the SEC and we are doing.

The Wall Street firms—you’re right—may say, “Well, maybe I can move to London, or Frankfurt,” or something like that. Well, in fact, the way the bill was written, it says, “If you’re dealing with a U.S. party, you’re still covered.”

So if they want to deal from London with a U.S. customer—you know, somebody in your district in Georgia, they still have to make sure that is reported and it’s transparent, and it comes under, you know, the various protections.

Mr. KINGSTON. But there still would be the tax advantage of being elsewhere, right?

Mr. GENSLER. I’m not going to swim outside my lane. I’m not an expert on taxes.

Mr. KINGSTON. We do that all the time, Mr. Chairman.

Mr. GENSLER. I’m trying not to, I’m trying to just say—this derivatives lane is pretty deep.

Mr. KINGSTON. Well, my time has expired.

Mr. Farr.

FUNDING CUTS

Mr. FARR. Did you see the movie, Inside Job?

Mr. GENSLER. I have not yet seen it, but I understand it won an academy award.

Mr. FARR. It won an academy award. And when I saw it, I was just appalled. I think Congress looked pretty good in that movie, because we were doing our oversight job. But I’ll tell you, the administration—and not just the government administration—but certainly the administration of Wall Street and enforcement and all that, just seemed to be asleep at the switch.

And everybody, I mean, people were just so disgusted, walking out of that movie. Like “What happened?”

I mean, this committee doesn’t have jurisdiction over SEC. But Congress does. And Congress enacted the Dodd-Frank. You’re only a portion of that.

But I want to go back to H.R. 1, because our House has taken the stance of cutting $57 million out of your budget. That’s existing this year’s budget. Not even talking about the new increase of 139 million.

If indeed we’re not going to cut those for the SEC—because we’ve seen the movie, Inside Job, and we know that’s where most of the knowledge about exchanges exist, and where people’s 401ks and all those things that they follow are there—in essence, you're really in kind of esoteric field.

And as I understand, you really don't have that many players. I mean, people who do this are a small number, compared to the people that play in the stock market.

So there's just probably more transparency, because the press covers it, because people take an interest in it.

Mr. GENSLER. Mm-hmm.

Mr. FARR. So what happens if we cut your budget—I mean, Congress, this House has voted to do that—and that may portend to what may come out of the next year's budget, where they cut $57 million, or they don't give you your $139 million increase.

And you've indicated that it's a lot of speculation going on here—there's Ponzi schemes going on. Does it suggest that perhaps if we, having seen Inside Job, that we're going to regret not giving you the resources that you need, because there's going to be more fraud?

Mr. GENSLER. I think it does. I think it's a little bit like the patient who doesn't take the daily tab that the doctor says to take.

You don't know when you might regret that you haven't taken your Lipitor, or something.

We're a very small, as you said, possibly esoteric Agency. We cover this deep but important market that all across this great land, people can rely on these markets to get certainty and make their investments.

I agree with you, the regulatory system and the financial system both failed the American public. That's why millions are still out of work, and the economy still has challenges, such great challenges.

I agree with you that it's hard sometimes to connect what we do with the American public. My 84-year-old mother sometimes asks me this.

But I do think that if we were cut 35 percent in funding, this year halfway through the year, we'd have to cut two-thirds of our staff, and we could not ensure confidence in these markets, and the confidence in the pricing of oil, the confidence in the pricing of wheat, cotton, corn, interest rates, currencies.

And those run throughout the country's economy; they're important for investment, for job growth.

But we're somewhat esoteric, as you say.

And you might not see it immediately. It might take some time for the problem to emerge. It might be well past this Congress before it emerges.

Mr. FARR. And it's your market that controls the energy futures, not the stock market. Right?

Mr. GENSLER. It's our oversight of those markets that relates to the price of gas at the pump, yes.

Mr. FARR. Well, it seems to me, Mr. Chairman, that it's pretty scary if we don't give them the tools they need, in light of what we've just experienced, that if, indeed Congress has enacted the laws to ensure better oversight, better transparency, a more fair playing field, that we need to hire the referees to go in there to make the game played right.

So I would hope that when we do adopt our budget this year, our appropriations bill, that we will give you the money you'll need to hire the referees.

Mr. KINGSTON. Ms. DeLauro. Or Mr. Bishop.

Mr. BISHOP. Ms. DeLauro.

IMPORTANCE TO THE ECONOMY

Ms. DELAURO. Thank you, Mr. Chairman, and thank you, Mr. Bishop and Mr. Farr. My apologies to you, Chairman. The Labor, Health, Human Services and Education Subcommittee just completed its hearing, so I'm sorry to be delayed.

But I welcome you and thank you very, very much for the good work and efforts that you have been making in this area.

It used to be that the work of the Commodities Futures Trading Commission never saw the light of day in the not-too-distant past. But we clearly now understand its functions and what it does and its ability to deal with speculation and oil, et cetera, and a whole lot of other areas, which are critically important to our future economy, and the regulation of the markets here against fraud.

Now you may have answered this, so I just will be very quick. And that is about the cut to the FCTC funding, $112 million.

My view is that would cripple your ability to police the markets, and you'd would be impaired, less able to deal with high-risk traders, et cetera.

And Agency staff—and if you have answered this, I apologize, but then answer quickly—Agency staff that would have to be furloughed or terminated, what percentage of your staff?

Mr. GENSLER. If it happened mid-year, about two-thirds of our staff would have to be RIF'd.

Ms. DELAURO. Okay. And what's the number that's attached to it?

Mr. GENSLER. Oh, I'm sorry, we have about 675 people we'd have to get down into the low 200's.

Ms. DELAURO. Hundreds, got you. Okay.

Mr. GENSLER. And again, if it happened mid-year for the full year.

Ms. DELAURO. Yeah.

Mr. GENSLER. If it was only for the remaining part, it would be different.

Ms. DELAURO. Impact. The agency's work on Ponzi schemes—I know Mr. Farr mentioned that—would it be more difficult to find the next Bernie Madoff?

Mr. GENSLER. I don't think that we would have an ability to find any, small or big. I think if we had to a 60 to 70 percent head count reduction, the 200-plus people left would have such low morale, we could not give Americans confidence in our oversight.

Ms. DELAURO. You couldn't get there from here?

Mr. GENSLER. No, we'd have to rebuild the morale.

Ms. DELAURO. Okay.

Mr. GENSLER. We've never been an Agency that small.

Ms. DELAURO. Mm-hmm.

And what about the implementation of the Dodd-Frank Wall Street reform?

Mr. GENSLER. If we stayed at the staff we are currently at, we can finish the rules, but we can't effectively oversee the markets. If we were, as you say, cut, we would even have a challenge there.

Ms. DELAURO. You couldn't even then—okay.

Mr. GENSLER. Well, I'd stick around. And the Commissioners would be there. A little harder to read all the comments.

Ms. DELAURO. No, no. But I'm just saying is with regard to Dodd-Frank, you really couldn't get anywhere with it, if you're cut at the level that's being discussed? Or passed in H.R. 1?

Mr. GENSLER. Yeah. I mean, we'd dust ourselves off and we'd continue to effectively read comments and try to do the rule-writing Congress has asked us to do. But it would be delayed.

Ms. DELAURO. All right.

A question on a key component of the Wall Street reform is that it will require data collection, publication through the clearinghouses to improve market transparency, provide regulators with important tools for monitoring and responding to risks.

If CTFC does not have adequate resources, would this mean that the data would go uncollected and unpublished, and thus continue what caused the problem, a less transparent market?

And if you're unable to monitor and respond to risk, because of funding cuts, what kind of environment does this create in terms of those who would abuse the system the way that some have, and have allowed them to prosper, but create havoc?

Mr. GENSLER. It's why this is such a good investment, I believe, for the American public—in this large country, to expend what were asking for, as the President asked for $300 million—is a good investment.

So we can do that data collection, so we can monitor the markets, so we can publish data, as we do in the futures market, on a weekly basis.

For the first time, people could see what's the aggregate positions in the swaps markets in oil, in natural gas, and cotton?

Nobody can see that right now. It's not doable.

Ms. DELAURO. And we would not be able to see that? That would be the impact?

Mr. GENSLER. We need adequate resources to be able to do it.

Ms. DELAURO. Resources to be able to do it. That was my next question.

Mr. GENSLER. To aggregate it and publish it.

Ms. DELAURO. So that's that. Right, so less—they're being registered, regulated, there's transparency peace in that.

Mr. GENSLER. A big transparency peace.

Ms. DELAURO. Mm-hmm.

Mr. GENSLER. And markets work best when they're transparent.

Ms. DELAURO. And would the swap dealers, could they operate outside the clearinghouses? Would we know?

Mr. GENSLER. Well, I think the law is very clear that they have to operate with clearinghouses; but we wouldn't be able to monitor or oversee them.

Ms. DELAURO. Mm-hmm.

Mr. GENSLER. Those clearinghouses or the dealers.

Ms. DELAURO. How do you think the derivatives market would be impacted?

Mr. GENSLER. I think that the derivatives marketplace will work best if there's an effective and well-funded Agency, because I think it instills confidence in the users of the products.

I think when there's not, and there's less confidence, many of the companies in your district and every district, state governments, then would have to guess whether the market's going to work for them.

So when it's a fair market, it's a level playing field, and it's transparent, free of manipulation and fraud, there's more use of the market, people can get price certainty; it's really an important factor to grow an economy.

Ms. DELAURO. Mm-hmm.

Mr. GENSLER. It's part of our modern financial system.

But the I think the derivative markets—I'm saying it in the positive—will benefit by a well-resourced CFTC, even still, we're talking about a relatively small agency—you know, the 980 people and the $66 million of technology is relatively small compared to the hundreds of billions of dollars—I mean, the financial industry, the top 25 banks holding companies in the America have $800 billion of revenues.

So you can give a sense of, you know, the size we are, compared to the financial industry.

Ms. DELAURO. Mm-hmm. Let me say thank you to the chairman, but thank you, Mr. Gensler, again for your work. And I for one want to make sure that you get the resources that you need, because it seems to be addressing the specific issues that got us into, you know, this financial crisis.

And seems to me that if we would abrogate our responsibility if we didn't use the resources to provide you with the tools that we need to make sure it doesn't happen again.

Thank you. And thank you, Mr. Chairman.

Mr. GENSLER. Thank you.

Mr. KINGSTON. Mr. Bishop.

Mr. BISHOP. I'll pass.

MARGIN REQUIREMENTS

Mr. KINGSTON. Mr. Chairman, I wanted to find out a little bit more in terms of the margin requirements on end-users—and I'm not sure if there's ambiguity about it, or not, but because I know this was another issue that was debated on the floor—as I understand it, that you have "exempted some end-users from clearing and exchange trading requirements, but not issued a rule governing margin requirements for non-cleared and non-exchanged traded swaps."

Is that correct?

Mr. GENSLER. It's very clear in my mind and amongst our Commissioners, because I've testified on behalf of them, that when we publish a rule—and we hope to do this in April—that consistent with Congressional intent, that these commercial end-users would not be brought up or caught up into this margin rule.

We only cover the non-bank swap dealers at the CFTC. But with regard to the ones we cover, that's where we are.

RULEMAKING

Mr. KINGSTON. Okay.

You probably have this somewhere, but just to kind of sort out the rules, as I understand, in Dodd-Frank, there were 21 mandatory provisions, and there were 31 discretionary provisions. And you have identified 31 areas for proposing rules.

You had mentioned earlier there were something like 42. And were those rules? Or are those provisions?

So I guess what I need to know is: In 21 versus 31 versus 42, what is what and what is your sequence?

Mr. GENSLER. Okay. All good questions.

When the President signed the bill, we went through it, and we identified 30 topic areas. It was a good way to inform the public. A topic area could be like clearinghouses, for instance.

And we published that on our website, and we took public meetings, and we've had at least 600 public meetings, and about 3,000 comments from the public, even before we made any proposals.

We knew that Congress gave us 12 months, and we're human, we'll be beyond that 12 months when we finish. But so we thought we'd take the first six or seven months, and try to put proposals out there, just like this Congress puts proposals out and gets feedback.

And so we have successfully working with the public and the SEC and others put out just over 40 proposals in 28 of those topic areas.

Again to use clearinghouses, we decided to actually put the proposals out, and I think it was four different proposals. Most of them were a just a proposal per topic area; but a couple of times we split it, just as a committee might split their work.

We're going to consolidate those clearinghouse ones later, when we go to a final rule. But we put them out separately, so that we can get public comment.

The comment periods have been very helpful. We have public roundtables. If somebody, for instance, still had a comment on a rule where the periods closed, we have discretion to still take that comment, and we have been putting those comments in the comment file.

In sequencing the final rules—I know this was an earlier question of yours, Mr. Chairman—on sequencing the final rules, we think three things will have to happen before we move on any of them:

One is that we actually summarize the public comments sufficiently on cost benefit analysis, on the law, on the policy, and so forth.

Two is get Commissioner feedback. We've benefitted from wonderful Commissioner input, everybody thoughtfully engaging.

And three is working with international and domestic regulators to get their feedback.

And then putting a final rule out. We don't see any final rules this month of March. I don't think we'll move any in April.

I laid out in a speech yesterday—I was talking to Martin right before we came in, your staff director.

Mr. KINGSTON. The man who knows every line in the bill. [Laughter.]

Mr. GENSLER. And I want to know him.

That we've started to talk amongst the Commissioners about thinking about an early phase, a middle phase, and a late phase of finalizing rules.

But this should not be confused with how they're implemented. Because even if we just finalize something early, it could be implemented well out there. And two of them that we think we should move to finalize early are those that you've raised:

The definitions for entities.

Who's a swap dealer?

The end-user exception.

You know, those are things that we would like to finalize early some time this spring, if we're able to. If we're not able to, we'll do it later, obviously.

But we think those are really important to move early.

REGULATOR AND REGULATED

Mr. KINGSTON. One of the things that always is a concern of Congress, and members have different perspectives on it, is the regulator and the regulated. Sometimes there is an ivory tower view of the world by the regulator. Or is it a chummy relationship?

And we need to have the balance.

EPA recently or a year ago came out with a regulation classifying milk as oil, because there is some oil in it; and a dairy farmer would have to have an emergency response plan if their truck spilled milk, even on the farm.

A little ridiculous.

Chairman Obey, at the time, led the effort to get that clarified. It was a bipartisan feeling of Congress that it was a regulatory overreach.

We're having an issue right now regarding grain inspection in stockyard, the GIPSA rule, where the members of Congress on a bipartisan basis feel that there might be an overreach on the interpretation of what the Farm Bill called for.

And that's the balance that we're concerned with, because this stuff is very technical, and you're talking about being in your lane, you know. I always say Congress is the ultimate paradise for attention disorder, because you go from military issues to medical issues to education issues to this committee, from food stamps, to foreign programs, the FDA, to CFTC.

And so we are several miles wide, and not as deep as we want to be. But that's one of the things that we're very concerned about, is to make sure that there is an appropriate balance, an arm's length distance between you and the Wall Street firms, but at the same time that it is not ivory tower.

And that's just sort of a philosophical discussion.

But my time is expired.

Ms. DeLauro.

Ms. DELAURO. I don't have any questions, Mr. Chairman. But I would say with regard to that—and I would just say this about Chairman Gensler—that I think this is someone who understands, knows Wall Street, knows how it works, et cetera, but also understands what is needed in this crisis that we have been through, and how we might, in an appropriate way, if you will, address the issue.

Now that may not make, you know, some of the folks happy. But it is not an ivory tower view of how we need to make sure that we don't deal with the risk we've had over the years, and put some pieces in place that can prevent those things to happen together, how we might be able to make this a transparent market, how we can lower the risk factor, how we can ferret out those who would abuse the system.

So I think—and I would have to believe—that while there could be some tensions, but that this is an instance, with the Chairman at that head of this Commission, that we are looking at what is real, and reality in terms of fostering the kinds of regulations that we are looking at, which is what leads me, and has led myself—and I know in a bipartisan way what we did was to talk about the resources that were necessary in order for this regulator, for this Agency, to be able to do the work that is being laid out.

Otherwise, I think we find ourselves moving backward in a process, which really needs to have some certitude, and some reality-based initiatives that we can move forward on.

Mr. GENSLER. I thank you. It's good to see you again, too, by the way. Thank you for that compliment.

One of the things we have done is we've decided early to post on our website every meeting we had, even if it wasn't required to have, you know, that transparency. And it's well over 600 meetings.

And you will see, naturally—because large institutions tend to come and knock on the door more than investor advocates—that the bulk of those meetings are with either end-users, or the financial community, or the trading community, or hedge fund, and so forth.

And we post all the meetings, the topics discussed, who's there, and so forth.

I think that's been helpful to gain transparency, and I know that your staff could take a look at it to see.

So we have a very open process. And then we've taken a commission that actually only had one public meeting a year for ten years, and we're doing everything in public meetings, as you do.

I mean, which I think is the right thing to do.

And we have five Commissioners. I think we're a benefit. I think the Commissioner structure is a good thing for America, that you have that debate and that sometimes there are differences. Hopefully we bridge those differences, you know, as best we can, in a bipartisan way.

Mr. KINGSTON. Mr. Bishop.

Mr. BISHOP. I have no questions.

COMMODITY PRICES

Mr. KINGSTON. I wanted to get back—and I think this will be my last round—but you've probably heard this song before about the boll weevil. And there's a line in it that the merchant got the cotton, the boll weevil took the rest. Nothing left for the farmer's wife, but one old cotton dress, and it was full of holes.

And often, particularly for Mr. Bishop and me—and you know, we've gone to the MERC, we've gone to the Chicago Board of Trade, we've gone to New York, and there's such a distance between them geographically and culturally and in other ways in terms of the cotton market might be good up in Chicago and New York, but it's not good down home on the farm.

And often it seems like the traders do well, but the farmer doesn't benefit from it. And so can you comment on that? And right now, you know, my opening question was about gas, the price of gas. We are hearing from those who say that speculators are driving up the costs at the pump.

And so talk to me about the benefit to the farmer and why they're not always sharing in the price fluctuations. And I understand the hedge-in concept, but it still seems like sometimes they're the afterthought.

Mr. GENSLER. Yeah. Right.

These markets at their core are about those producers and the merchants. So the cotton farmer, if we use that, to plant the crop, and even to buy the land, and know what you're doing, you want to be able to say: "I need certainty on the price at harvest time."

I mean, that's the fundamental core of this market.

And in the oil markets, it's very similar that the energy producer has some certainty, and the grain company has certainty of the market.

And cotton is an example right now. There are those in the cotton markets that are very concerned. There's been a great deal of volatility in the cotton markets recently as cotton's moved up to $2.00 and so forth.

Sometimes it's up-limit. That means it goes up the limit of the day. Or down-limit the very next day. And it's very difficult for them to hedge.

So these markets at their core really have to work for that cotton farm, or that cotton merchant, wheat, corn, and soy in the agricultural markets; as well, even in the interest rate markets.

Because their speculators have a big role in markets. The markets can't be just solely 100 percent hedgers; you need somebody on the other side of the trade.

Over the last ten years, speculators have taken a greater percentage of the market. As markets become more electronic, they become more global, there's more index investment in these markets. And parties have started to think, "Well, maybe cotton is an asset class, I should invest in cotton"—maybe not cotton specifically, but agricultural markets—the same way I invest in an emerging market debt. You know, it just becomes an asset class.

So our role, this small Agency's role, is to ensure that when those speculators and hedgers meet in a marketplace, it's a fair and open market to police the manipulation—because there will be somebody in a marketplace, someplace, that's a bad actor—and make sure that they're transparent.

That's the core of what we do, and why I think we're a good investment, so that cotton farmer can have the certainty and greater confidence in a market than sometimes you would have, given the volatility.

And as say, there are such great geographic and cultural distances between that cotton farmer in Georgia and New York.

And so we help, I think—we don't bridge that gap completely—but we help build confidence in the market that they're fair and transparent.

Mr. KINGSTON. Mr. Bishop and I might invite you and your daughters to do a little South Georgia tour with us sometime.

Mr. GENSLER. I'd be honored to go.

Mr. KINGSTON. I know the girls would find that interesting.

Mr. Bishop.

Mr. BISHOP. I have no further questions.

Mr. KINGSTON. Well, Mr. Gensler, thank you very much for your testimony today. Thank you for the time. We will stay in touch and be talking.

Mr. GENSLER. Yes. And I thank you for our consideration of a budget request that I know is difficult with the American deficit, that we've actually asked for more money. So I thank you for your consideration.

Mr. KINGSTON. The two-year ask is going to be a problem. But we want to work with you, and we don't want to derail things. But we do want to have some input and watch the rules as they go along.

And that's why the sequencing is important. And I will be following up with some written questions on that.

Mr. GENSLER. And if you'd like, I'd be glad to come up and walk you through the sequencing and lay out some charts, if you think that would help you.

Mr. KINGSTON. That might be a good idea.

Mr. GENSLER. All right. I look forward to that. Thank you.

Mr. KINGSTON. Well, thanks a lot.

The committee stands adjourned.

Questions for the Record
Chairman Jack Kingston
March 17, 2011
CFTC

Resource Constraints /Lack of Planning

Mr. Kingston: Chairman Gensler, at what point would you say you first became involved in the legislation that eventually became the Dodd-Frank law?

Response: I first testified on behalf of financial regulatory reform before the Senate Committee on Agriculture, Nutrition and Forestry on June 4, 2009.

Mr. Kingston: Prior to submitting that proposal to Congress in August of 2009, what considerations were given to the resource needs of the CFTC to carry out such an enormous expansion of regulatory surveillance?

Response:
The Treasury Department's draft legislative recommendation to Congress regarding the oversight of the swaps market was released on August 11, 2009. The CFTC was acutely aware that substantial additional resources would be required for the agency to effectively carry out its expanded mission if Congress enacted legislation similar to that recommended by the Administration. CFTC staff analyzed the Administration legislation as well as Congressional proposals being considered in the summer of 2009 and worked closely with the Office of Management and Budget and the Congressional Budget Office to provide technical aid in assessing the agency's additional needs. The President's budget for FY 2011 proposed that the CFTC be appropriated $216 million, with an additional $45 million contingent on enactment of new or enhanced financial regulation activities.

Mr. Kingston: Were such needs considered to be feasible given your already strained staff and technology resources?

Response: Careful consideration was given to the resource requirements of the agency given its expanded mission. The amount requested by the Administration to fund the agency was reasonably calculated to meet those needs.

CFTC Rulemaking Impact on Agriculture Producers

Mr. Kingston: Farmers and ranchers are facing numerous new regulations and regulatory proposals from Washington. The regulations and proposals range from regulating air emissions from livestock operations to double permitting of pesticide applications to an entirely new livestock marketing system. Individually, these will have a significant effect on producers.

Together, they could change the face of American agriculture. CFTC's proposals also will affect producers. While we all want transparency and efficient markets, it would not be good for CFTC if a rushed rulemaking makes it more difficult for producers to market their crop or livestock. That is not the purpose of Dodd-Frank.

Can you assure the subcommittee that CFTC's regulatory plans are taking unintended consequences into account, and that the agency is very carefully looking to avoid them especially when it comes to agriculture?

Response: We have met extensively, and continue to meet, with market participants and other interested parties, including those in the agricultural sector to hear, consider and address their concerns in each rulemaking. Additionally, before the Commission proposed many of its significant rulemakings, CFTC staff hosted public roundtables to hear directly from market participants and other interested parties. Information about each of these meetings, as well as full transcripts of the roundtables, is available on the CFTC's website and has been factored into each applicable rulemaking.

The CFTC has proposed rules in 14 open Commission meetings. I am hoping that members of the public from interested groups, including agriculture interests, provide comments on the proposed rules. Those comments will be helpful to the Commission in avoiding unintended consequences.

Personnel and the IT Budget

Mr. Kingston; The Commission hired 75 new employees in FY 2010 above the proposed levels (605 proposed to 680 actual), for which current budget authority is given under the Continuing Resolution. Approximately $11 million of these funds were transferred from the Commission's technology resources, including a reduction of 36% to the Office of Information Technology. This seems irresponsible at a time when the CFTC's regulatory authority has been severely expanded and its IT resources are incredibly out of date.

Was the Committee on Appropriations notified of this transfer? Please provide documentation if it was. Please provide a detailed report of the funds transferred among IT and personnel-related internal accounts: including amounts and names for each account, the date of transfer, and the remaining balance in each after such transfer for FY 2010 to present.

Response: The FY 2010 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2010, (the Act) included a provision restricting the availability of $8.2 million of the agency appropriation until the CFTC submitted an expenditure plan for FY 2010 to the Appropriations Committees. The Act, also required a report to establish the baseline for application of reprogramming and transfer authorities for the current fiscal year (FY 2010).

The CFTC submitted its spending plan and baseline document to the Committees on July 15, 2010. Its submission included, as requested, an object class table and program table (as detailed in the Budget Appendix) with a separate column to display the President's budget request, the fiscal year enacted level and the FY 2009 operating or spending plan. The content of that submission is provided below in its entirety. Specific facts relevant to the question are as follows:

- The President's FY 2010 Budget provided for $160,800,000 and 610 FTEs. Congress enacted and the President signed on October 16, 2009, an appropriation of $168,800,000, which provided for 650 FTE on an annualized basis.
- The expenditure plan transmittal letter included these details:
  - "The Commission expects to finish FY 2010 with approximately 670-680 employees on-board and using 603 FTEs over the course of FY 2010."
  - "The difference between the 650 FTE ceiling and estimated FTE usage of 603 will result in $9 million being available for other budget priorities such as enhancing information technology systems and configuring office space to accommodate new staff."
  - "The Commission proposes to reprogram approximately $5.4 M dollars to fund a continuation of systems development for major IT systems; to provide on-going access to legal and market financial data; and to provide sufficient data storage capacity."

With regard to FY 2011 funding, the CFTC operated under continuing resolutions for more than six months and was funded for the remainder of the fiscal year when Public Law 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, was signed into law on April 15, 2011. As a consequence, the CFTC has incrementally allocated funds into its budget object class accounts as they became available under continuing resolution apportionment rules. CFTC maintains a fund control system and fund control regulations as prescribed in OMB Circular No. A–11 section 150, "Administrative Control of Funds" and maintains logs of the reprogramming of funds between budget object class allocations. All reallocations against IT object classes during Fiscal Years 2010 and 2011 (to date) are presented below.

FY 2010 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal Y/QTR	completed
1	10/08/09	(PAYCO) (0000000NFC) Payroll Compensation	$13,560.00			fn		Yes
2		(PAYCO) (0000000NFC) Payroll Compensation	$12,800.00			fn		Yes
3		(PAYCO) (0000000NFC) Payroll Compensation	$9,233.00			fn		Yes
4				(23380) OMO(5005000001) Postal & Messenger Services	$13,560.00	fn		Yes
5				(25315) OFM(5003000001) Other Fed Svcs NOC	$12,800.00	fn		Yes
6				(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$9,233.00	fn		Yes
7	10/09/09	(PAYCO) (0000000NFC) Payroll Compensation	$97,637.55			fn		Yes
8				(25714) OITS(5004000001) ADP Furn & Equip Opers & Maint	$72,637.55	fn		Yes
9				(24090) OMO(5005000001) Printing & Reproduction	$5,000.00	fn		Yes
10				(23380) OMO(5005000001) Postal & Messenger Services	$20,000.00	fn		Yes
11	10/23/09	(PAYCO) (0000000NFC) Payroll Compensation	$232.00			fn		Yes
12		(23120) CH LEASE & UTILITIES(9902000002) CH Lease & Utilitie	$660.00			fn		Yes
13		(23120) KC LEASE & UTILITIES(9903000003) KC Lease & Utilitie	$718.00			fn		Yes
14		(23271) OMO(5005000001) Richmond COOP	$179.50			fn		Yes
15		(PAYCO) (0000000NFC) Payroll Compensation	$9,223.00			fn		Yes
16		(21000) LEGISTATIVE AFFAIRS(0101000000) Travel	$404.00			fn		Yes
17				(23120) DC LEASE & UTILITIES(9901000001) DC Lease & Ut	$232.00	fn		Yes
18				(PAYCO) (0000000NFC) Payroll Compensation	$660.00	fn		Yes
19				(PAYCO) (0000000NFC) Payroll Compensation	$718.00	fn		Yes
20				(23271) OMO(5005000001) Richmond COOP	$179.50	fn		Yes
21				(31310) OITS(5004000001) IT Software	$9,223.00	fn		Yes
22				(PAYCO) (0000000NFC) Payroll Compensation	$404.00	fn		Yes
23	10/30/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$67,000.00			fn		Yes
24				(25344) OHR(5002000001) IT Serv for OHR	$41,000.00	fn		Yes
25				(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$26,000.00	fn		Yes
26	11/02/09	(PAYCO) (0000000NFC) Payroll Compensation	$200,000.00	(233X0) OITS(5004000001) Telecom Svcs - Commercial	$200,000.00	fn	Yes	Yes
27	11/12/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$55,000.00	(23270) OITS(5004000001) ADP Space Rentals	$55,000.00	fn	Yes	Yes
28	11/17/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$112,947.44			fn		Yes
29				(233M0) OITS(5004000001) Telecom Svcs - Federal	$69,531.63	fn		Yes
30				(233A0) OITS(5004000001) Online Information Services	$43,415.81	fn		Yes
31	11/19/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$8,451.00	(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$8,451.00	fn		Yes

FY 2010 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal Y/QTR	completed
32	11/24/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$3,445.00	(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$3,445.00	fn		Yes
33	11/25/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$5,000.00	(25714) OITS(5004000001) ADP Furn & Equip Opers & Maint	$5,000.00	fn		Yes
34	12/01/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$25,000.00	(31310) OITS(5004000001) IT Software	$25,000.00	fn		Yes
35	12/03/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$120,000.00	(25714) OITS(5004000001) ADP Furn & Equip Opers & Maint	$120,000.00	fn		Yes
36	12/08/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$165,000.00	(25717) OITS(5004000001) ADP Software Opers & Maint	$165,000.00	fn		Yes
37	12/15/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$16,200.00	(31310) OITS(5004000001) IT Software	$16,200.00	fn		Yes
38	12/17/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$1,000.00	(25714) OITS(5004000001) ADP Furn & Equip Opers & Maint	$1,000.00	fn		Yes
39	12/29/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$20,000.00	(31310) OITS(5004000001) IT Software	$20,000.00	fn		Yes
40	12/30/09	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$20,000.00	(25717) OITS(5004000001) ADP Software Opers & Maint	$20,000.00	fn		Yes
41	02/03/10	(PAYCO) (0000000NFC) Payroll Compensation	$1,100,000.00			eb		Yes
42		(PAYBE) (0000000NFB) Payroll Benefits	$263,000.00			eb		Yes
43				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$1,200,000.00	eb		Yes
44				(24090) ENF(2000000001) Printing & Reproduction	$50,000.00	eb		Yes
45				(32240) OFM(5003000001) Othr Structures, Facilities & Utility	$50,000.00	eb		Yes
46				(25415) OFM(5003000001) Space Aqui Expansion	$63,000.00	eb		Yes
47	02/16/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$100.00	(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$100.00	fn		Yes
48	03/16/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$95,000.00	(31310) OITS(5004000001) IT Software	$95,000.00	sm		Yes
49	03/24/10	(26622) OITS(5004000001) ADP Supplies	$500.00	(31310) OITS(5004000001) IT Software	$500.00	sm		Yes
50	04/16/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$160,000.00	(233A0) OITS(5004000001) Online Information Services	$160,000.00	sm		Yes
51	06/09/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$73,000.00	(233A0) OITS(5004000001) Online Information Services	$73,000.00	sm		Yes
52	06/24/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$10,000.00	(21000) OITS(5004000001) Travel	$10,000.00	sm		Yes
53	06/29/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$5,000.00	(26622) OITS(5004000001) ADP Supplies	$5,000.00	sm		Yes
54	07/16/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$246,444.00	(23270) OITS(5004000001) ADP Space Rentals	$246,444.00	fn		Yes
55	07/23/10	(25204) OITS(5004000001) Training	$5,000.00	(21000) OITS(5004000001) Travel	$5,000.00	sm		Yes
56	07/23/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$4,808.00	(21000) OITS(5004000001) Travel	$4,808.00	sm		Yes
57	07/28/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$4,000.00	(23270) OITS(5004000001) ADP Space Rentals	$4,000.00	sm		Yes
58	07/28/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$50,000.00	(21000) OITS(5004000001) Travel	$50,000.00	sm		Yes
59	08/11/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$775,000.00	(31310) OITS(5004000001) IT Software	$775,000.00	fn		Yes

FY 2010 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal YIQTR	completed
60	08/12/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$1,300,000.00	(31051) OITS(5004000001) ADP Furniture	$1,300,000.00	fn		Yes
61	08/12/10	(233X0) OITS(5004000001) Telcom Svcs - Commercial	$409,000.00	(31051) OITS(5004000001) ADP Furniture	$409,000.00	fn		Yes
62	08/12/10	(233B2) OITS(5004000001) ADP Equip & Furniture Rental	$141,000.00	(31051) OITS(5004000001) ADP Furniture	$141,000.00	fn		Yes
63	08/17/10	(PAYCO) (0000000NFC) Payroll Compensation	$1,033,000.00	(31051) OITS(5004000001) ADP Furniture	$1,033,000.00	eb		Yes
64	08/18/10	(13010) (0000000NFB) Servance Pay	$1.00			sm		Yes
65		(23120) DC LEASE & UTILITIES(8901000001) DC Lease & Utilitie	$0.14			sm		Yes
66		(23270) OITS(5004000001) ADP Space Rentals	$0.99			sm		Yes
67		(23271) OFM(5003000001) Space Rental (Non Fed)	$0.50			sm		Yes
68		(23271) OMO(5005000001) Richmond COOP	$0.50			sm		Yes
69		(25344) OFM(5003000001) IT Serv for OFM	$1.00			sm		Yes
70		(26623) CHAIR DIRECT(0199000000) EEO Events	$1.00			sm		Yes
71		(32241) OITS(5004000001) Bldg & Fixed Equip	$1.00			sm		Yes
72		(42025) OGC(4000000000) EAJA	$1.00			sm		Yes
73		(42045) OGC(4000000000) Litigation Fees & Awards	$1.00			sm		Yes
74				(PAYCO) (0000000NFC) Payroll Compensation	$8.13	sm		Yes
75	09/10/10	(PAYCO) (0000000NFC) Payroll Compensation	$556.00	(21000) OITS(5004000001) Travel	$556.00	fn		Yes
76	09/13/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$236,646.00	(233M0) OITS(5004000001) Telecom Svcs - Federal	$236,646.00	fn		Yes
77	09/24/10	(25204) ENF(2000000001) Training	$1,251.20			fn		Yes
78		(25204) DCIO(1000000001) Training	$0.75			fn		Yes
79		(25204) DMO(3000000001) Training	$4,175.80			fn		Yes
80		(25204) OGC(4000000000) Training	$10,819.00			fn		Yes
81		(25204) PROCEEDINGS(5001000001) Training	$3,084.58			fn		Yes
82		(25204) OFM(5003000001) Training	$2,323.94			fn		Yes
83		(25204) OHR(5002000001) Training	$7,792.50			fn		Yes
84		(25204) OITS(5004000001) Training	$17,583.75			fn		Yes
85		(25204) OMO(5005000001) Training	$1,632.78			fn		Yes
86		(25204) LIB(5006000001) Training	$2,551.00			fn		Yes
87				(32240) OFM(5003000001) Othr Structures, Facilities & Utility	$51,215.30	fn		Yes
88	09/24/10	(21000) ENF(2000000001) Travel	$50,602.28			fn		Yes
89		(21000) DCIO(1000000001) Travel	$33,000.00			fn		Yes
90		(21000) DMO(3000000001) Travel	$900.00			fn		Yes

FY 2010 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal YIQTR	completed
91	09/24/10	(21000) OCE(6000000001) Travel	$366.95			fn		Yes
92		(21000) OGC(4000000000) Travel	$8,500.00			fn		Yes
93		(21000) PROCEEDINGS(5001000001) Travel	$7,950.50			fn		Yes
94		(21000) OITS(5004000001) Travel	$18,000.00			fn		Yes
95		(21000) OMO(5005000001) Travel	$2,000.00			fn		Yes
96		(21470) OFM(5003000001) Sponsored Travel	$10,668.25			fn		Yes
97		(21000) SECRETARIAT(5007000000) Travel	$1.00			fn		Yes
98				(32240) OFM(5003000001) Othr Structures, Facilities & Utility	$131,988.98	fn		Yes
99	09/27/10	(PAYCO) (0000000NFC) Payroll Compensation	$6,800,819.00			eb		Yes
100		(PAYBE) (0000000NFB) Payroll Benefits	$1,308,879.00			eb		Yes
101				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$4,874,000.00	eb		Yes
102				(32240) OFM(5003000001) Othr Structures, Facilities & Utility	$2,974,698.00	eb		Yes
103				(25415) OFM(5003000001) Space Aqui Expansion	$261,000.00	eb		Yes
104	09/28/10	(32240) OFM(5003000001) Othr Structures, Facilities & Utility Sys	$515,055.00			eb		Yes
105				(25415) OFM(5003000001) Space Aqui Expansion	$10,000.00	eb		Yes
106				(31051) OITS(5004000001) ADP Furniture	$30,055.00	eb		Yes
107				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$475,000.00	eb		Yes
108	09/28/10	(12170) OHR(5002000001) Worker's Comp (FECA)	$8,151.00			eb		Yes
109		(121ED) OHR(5002000001) Flexible Spending Fee	$12,901.00			eb		Yes
110		(121SL) (0000000NFB) Student Loan Program	$5,658.00			eb		Yes
111		(121LC) (0000000NFB) LIFE Cycle	$34,593.00			eb		Yes
112		(121V1) OHR(5002000001) Recruitment Bonus	$13,250.00			eb		Yes
113		(21480) OFM(5003000001) Agency-Wide Travel	$15,000.00			eb		Yes
114		(24090) ENF(2000000001) Printing & Reproduction	$3,673.00			eb		Yes
115		(25100) CFTC-WIDE ADV/ASST(9906000006) CFTC-Wide Adv &	$13,314.00			eb		Yes
116		(25626) OHR(5002000001) Health Services	$37,165.00			eb		Yes
117				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$143,705.00	eb		Yes
118	09/28/10	(PAYBE) (0000000NFB) Payroll Benefits	$20,556.00	(31051) OITS(5004000001) ADP Furniture	$20,556.00	eb		Yes
119	09/29/10	(PAYCO) (0000000NFC) Payroll Compensation	$1,663.93	(21000) OITS(5004000001) Travel	$1,663.93	sm		Yes
120	09/29/10	(26640) LIB(5006000001) Publications Non-Perm	$34,547.67			eb		Yes
121		(26641) LIB(5006000001) Online Information Serv	$52,793.69			eb		Yes

FY 2010 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal Y/QTR	completed
122	09/29/10	(121U0) (0000000NFB) Rentention Allowance	$4,000.00			eb		Yes
123		(PAYBE) (0000000NFB) Payroll Benefits	$10,000.00			eb		Yes
124				(233X0) OITS(5004000001) Telcom Svcs - Commercial	$101,341.56	eb		Yes
125	09/29/10	(32240) OFM(5003000001) Othr Structures, Facilities & Utility Sys	$339,625.38			eb		Yes
126				(25415) OFM(5003000001) Space Aqui Expansion	$12,000.00	eb		Yes
127				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$327,625.38	eb		Yes
128	09/30/10	(233B1) OMO(5005000001) Equip & Furn Rental - Non ADP	$6,000.00			eb		Yes
129		(233B1) OMO(5005000001) Equip & Furn Rental - Non ADP	$3,000.00			eb		Yes
130		(25100) OMO(5005000001) OMO Adv & Asst Svcs	$22,592.00			eb		Yes
131		(25408) OMO(5005000001) Facilities Opers & Maint	$20,000.00			eb		Yes
132		(26640) LIB(5006000001) Publications Non-Perm	$1,493.00			eb		Yes
133		(233B1) OMO(5005000001) Equip & Furn Rental - Non ADP	$7,000.00			eb		Yes
134				(26620) OMO(5005000001) Office Supplies & Materials	$6,000.00	eb		Yes
135				(233X0) OITS(5004000001) Telcom Svcs - Commercial	$54,085.00	eb		Yes
136	09/30/10	(233B1) OMO(5005000001) Equip & Furn Rental - Non ADP	$9,000.00			sm		No
137		(25100) OMO(5005000001) OMO Adv & Asst Svcs	$22,592.00			sm		No
138		(25408) OMO(5005000001) Facilities Opers & Maint	$20,000.00			sm		No
139		(26640) LIB(5006000001) Publications Non-Perm	$1,493.00			sm		No
140		(25713) OMO(5005000001) Furniture & Equip Opers & Maint	$7,000.00			sm		No
141				(26620) OMO(5005000001) Office Supplies & Materials	$6,000.00	sm		No
142				(233X0) OITS(5004000001) Telcom Svcs - Commercial	$54,085.00	sm		No
		Total Amount:	$16,410,771.77		$16,410,771.77			

FY 2011 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal Y/QTR	completed
1	11/16/10	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$106,908.00	(31051) OITS(5004000001) ADP Furniture	$106,908.00	fn		Yes
2	12/30/10	(31111) OMO(5005000001) Furniture & Office Equipment	$22,782.22	(31051) OITS(5004000001) ADP Furniture	$22,782.22	fn		Yes
3	12/30/10	(25315) OFM(5003000001) Other Fed Svcs NOC	$14,476.00			fn		Yes
4		(25408) OMO(5005000001) Facilities Opers & Maint	$7,000.00			fn		Yes
5				(25717) OITS(5004000001) ADP Software Opers & Maint	$21,476.00	fn		Yes
6	01/12/11	(21000) PROCEEDINGS(5031000001) Travel	$477.00			fn		Yes
7		(21000) OED(5000000000) Travel	$1,460.00			fn		Yes
8		(21000) OFM(5003000001) Travel	$1,732.00			fn		Yes
9		(21000) OHR(5002000001) Travel	$897.00			fn		Yes
10		(21000) OITS(5004000001) Travel	$28,666.00			fn		Yes
11		(21000) OMO(5005000001) Travel	$3,227.00			fn		Yes
12		(21000) AAC - Advisory Committee(09AAC00000) Travel	$700.00			fn		Yes
13		(21000) GMAC - Advisory Committee(09GMAC0000) Travel	$700.00			fn		Yes
14		(21000) EEMAC - Advisory Committee(09EEMAC000) Travel	$700.00			fn		Yes
15		(21000) TAC Technical Advisory Committee(09TAC00000) Travel	$700.00			fn		Yes
16				(CONTF) OFM(5003000001) Contingency Fund	$39,259.00	fn		Yes
17	01/13/11	(CONTF) OFM(5003000001) Contingency Fund	$6,635.00			fn		Yes
18		(CONTF) OFM(5003000001) Contingency Fund	$1,486,301.00			fn		Yes
19		(21000) OCE(6000000001) Travel	$260.50			fn		Yes
20				(21000) COMM. CHILTON(0500000000) Travel	$1,472.00	fn		Yes
21				(21000) COMM. DUNN(0200000000) Travel	$1,472.00	fn		Yes
22				(115G1) COMM. O'MALIA(0300000000) Incentive Awards	$1,472.00	fn		Yes
23				(115G1) COMM. SOMMERS(0400000000) Incentive Awards	$1,472.00	fn		Yes
24				(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$1,486,301.00	fn		Yes
25				(CONTF) OFM(5003000001) Contingency Fund	$260.50	fn		Yes
26				(21000) INSPEC. GENERAL(0104000000) Travel	$747.00	fn		Yes
27	01/13/11	(CONTF) OFM(5003000001) Contingency Fund	$472,737.00			fn		Yes
28				(31051) OITS(5004000001) ADP Furniture	$400,545.00	fn		Yes
29				(31310) OITS(5004000001) IT Software	$72,192.00	fn		Yes
30	01/14/11	(25408) OMO(5005000001) Facilities Opers & Maint	$1,022.00	(25717) OITS(5004000001) ADP Software Opers & Maint	$1,022.00	fn		Yes
31	01/14/11	(115G1) OFM(5003000001) CFTC Incentive Awards	$306,356.00			fn		Yes

FY 2011 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal Y/QTR	completed
32	01/14/11	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$2,099,212.00			fn		Yes
33		(26621) AAC - Advisory Committee(09AAC00000) Event Supplies	$263.00			fn		Yes
34		(26621) GMAC - Advisory Committee(09GMAC0000) Event Suppli	$263.00			fn		Yes
35		(26621) EEMAC - Advisory Committee(09EEMAC000) Event Supp	$263.00			fn		Yes
36				(CONTF) OFM(5003000001) Contingency Fund	$2,406,357.00	fn		Yes
37	02/09/11	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$399,913.00			fn		Yes
38				(21000) PROCEEDINGS(5001000001) Travel	$360.00	fn		Yes
39				(24090) OFM(5003000001) Other Printing & Reproduction	$4,282.00	fn		Yes
40				(25100) OFM(5003000001) OFM Adv & Asst Svcs	$373,973.00	fn		Yes
41				(25204) OCE(6000000001) Training	$1,299.00	fn		Yes
42				(25258) ENF(2000000001) Experts & Consultants	$19,999.00	fn		Yes
43	02/09/11	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$73,405.00			fn		Yes
44				(11120) (0000000NFC) Lum Sum Annual Leave	$17,507.00	fn		Yes
45				(PAYBE) (0000000NFB) Payroll Benefits	$6,292.00	fn		Yes
46				(21000) COMM. DUNN(0200000000) Travel	$7,439.00	fn		Yes
47				(21000) COMM. CHILTON(0500000000) Travel	$10,738.00	fn		Yes
48				(21000) COMM. O'MALIA(0300000000) Travel	$11,738.00	fn		Yes
49				(21000) COMM. SOMMERS(0400000000) Travel	$11,738.00	fn		Yes
50				(25204) COMM. DUNN(0200000000) Training	$2,393.00	fn		Yes
51				(25204) COMM. CHILTON(0500000000) Training	$2,520.00	fn		Yes
52				(25204) COMM. O'MALIA(0300000000) Training	$1,520.00	fn		Yes
53				(25204) COMM. SOMMERS(0400000000) Training	$1,520.00	fn		Yes
54	02/09/11	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$1,949.00	(CONTF) OFM(5003000001) Contingency Fund	$1,949.00	fn		Yes
55	03/01/11	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$223,000.00			eb		Yes
56		(25224) OHR(5002000001) CFTC-Wide Training	$12,312.00			eb		Yes
57				(23120) NY LEASE & UTILITIES(9905000005) NY Lease & Uti	$223,000.00	eb		Yes
58				(252A1) OFM(5003000001) CFTC-Wide Transcript Svcs	$4,247.00	eb		Yes
59				(CONTF) OFM(5003000001) Contingency Fund	$8,065.00	eb		Yes
60	03/08/11	(25344) OFM(5003000001) IT Serv for OFM	$6,167.00	(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$6,167.00	fn		Yes
61	03/14/11	(233X0) OITS(5004000001) Telcom Svcs - Commercial	$32,000.00	(233A0) OITS(5004000001) Online Information Services	$32,000.00	eb		Yes
62	03/23/11	(25344) OFM(5003000001) IT Serv for OFM	$9,250.00	(25344) OITS(5004000001) CFTC-Wide Fed ADP Sys Support	$9,250.00	fn		Yes

FY 2011 Reprogramming Log

	Date Requested	From (BOC) ORG	From Amount	To (BOC) ORG	To Amount	Appr by	Reversal YIQTR	completed
63	**03/30/11**	(2510A) OITS(5004000001) ADP Adv & Asst Svcs	$230,500.00	(25717) OITS(5004000001) ADP Software Opers & Maint	$230,500.00	fn		No
		Total Amount:	$5,552,233.72		$5,552,233.72			

U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5000
Facsimile: (202) 418-5521
www.cftc.gov

July 15, 2010

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
Washington, D. C. 20510

The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate
Washington, D. C. 20510

The Honorable David R. Obey
Chairman
Committee on Appropriations
United States House of Representatives
Washington, D. C. 20515

The Honorable Jerry Lewis
Ranking Republican Member
Committee on Appropriations
United States House of Representatives
Washington, D. C. 20515

Dear Senators Inouye and Cochran and Representatives Obey and Lewis:

Pursuant to the FY 2010 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2010, attached is the Commodity Futures Trading Commission's expenditure plan for FY 2010 (Attachment 1). Also attached is a current status report consisting of an object class table and program table with a separate column to display the President's budget request, the fiscal year enacted level and the FY 2010 estimated obligations (Attachment 2).

Spending Plan for FY 2010
The President's FY 2010 Budget provided for $160,800,000 and 610 FTEs. Congress enacted and the President signed on October 16, 2009, an appropriation of $168,800,000, which provides for 650 FTE on an annualized basis.

The Commission expects to finish FY 2010 with approximately 670-680 employees on-board and using 603 FTEs over the course of FY 2010. The enacted FY 2010 appropriation of $168,800,000 provides the opportunity to continue to hire critically needed staff to: improve market transparency, modernize technology, ensure robust enforcement of the law, conduct frequent direct audits of registrants and conduct timely reviews of new products and rule changes, such as significant price discovery contracts as required by the 2008 Farm Bill.

The FY 2010 appropriation enables the Commission to invest in information technology modernization and to expand office space to accommodate new employees and to provide, to the extent possible, for a continuation of these needs in FY 2011.

Staffing
The Commission's operating plan for 2010 is driven by its staffing situation. Today there are approximately 604 permanent employees at the CFTC. The FY 2010 appropriation permits the

Commission to hire approximately 79 additional employees between now and September 30, 2010. After factoring in attrition, we estimate to end FY 2010 with approximately 670-680 employees while utilizing approximately 600-605 FTEs (the Commission's hiring strategy for the remainder of FY 2010 and for FY 2011 is graphically summarized in Attachment 3). The difference between the 650 FTE ceiling and estimated FTE usage of 603 will result in $9 million being available for other budget priorities such as enhancing information technology systems and configuring office space to accommodate new staff.

Technology

The Commission is using appropriated funds for a substantial investment in information systems development to keep pace with changes in the futures markets. Existing Commission surveillance systems annually process more than one billion transactions to capture mission-critical data. It is essential to the Commission's mission that work continues to integrate and improve legacy information systems to capture more data across more markets. The Commission proposes to reprogram approximately $5.4 million dollars to fund a continuation of systems development for major IT systems; to provide on-going access to legal and market financial data; and to provide sufficient data storage capacity.

Construction Related to Space Expansion

The Commission began FY 2009 with 486 employees on-board. We anticipate starting FY 2011 with 680 employees on board. To accommodate this growth, the Commission has had to expand office space at headquarters and in regional offices. The Commission completed expansion of the Chicago office earlier this fiscal year. The Commission is currently expanding in Washington, DC and is evaluating expansion options for the Kansas City and New York regional offices. To ensure that the Commission has adequate space to accommodate the new staff the Commission proposes to reprogram approximately $3.6 million to provide for construction related costs associated with current or newly acquired space. These include a range of services: architects, engineering, legal, demolition and construction, equipment, legal costs and other associated costs. Reprogramming of these funds will permit the Commission to continue with construction at headquarters in Kansas City and New York. It is critical that the Commission maintain momentum on this effort as staff is anticipated to grow further should financial regulatory reform be enacted by Congress. Attachment 4 provides more detail on the Commission's plan for acquiring additional office space.

The Commission appreciates the support of the House and Senate Appropriations Committees. The increased funding provided the Commission for FY 2010 substantially improved the Commission's ability to fulfill its statutory responsibilities. If you have any questions or concerns, we would be happy to provide answers.

Sincerely,

Gary Gensler
Chairman

cc:

The Honorable Blanche Lincoln
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, D. C. 20510

The Honorable Saxby Chambliss
Ranking Republican Member
Committee on Agriculture, Nutrition,
and Forestry
U.S. Senate
Washington, D. C. 20510

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D. C. 20515

The Honorable Frank Lucas
Ranking Republican Member
Committee on Agriculture
U.S. House of Representatives
Washington, D. C. 20515

The Honorable Richard Durbin
Chairman
Subcommittee on Financial Services
And General Government
United States Senate
Washington, DC 20510

The Honorable Susan Collins
Ranking Republican Member
Subcommittee on Financial Services
And General Government
United States Senate
Washington, DC 20510

The Honorable Rosa DeLauro
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration,
and Related Agencies
United States House of Representatives
Washington, DC 20515

The Honorable Jack Kingston
Ranking Republican Member
Subcommittee on Agriculture, Rural
Development, Food and Drug Administration,
and Related Agencies
United States House of Representatives
Washington, DC 20515

Attachment 1

Commodity Futures Trading Commission
Spending Plan for FY 2011
Increase of $23.0 M
Crosswalk FY 2009 ($145.8) and FY 2010 ($168.8m)

FY 2009 Actual Obligations/ 498 FTE:	$145.8
Compensation including July 2010 pay adjustment, and annualization of July 2009 pay adjustment adjustments and additional staff	16.8
Benefits	6.7
Travel	0.4
Lease of Office Space	0.1
Utilities and Communications Record Storage $0.1 IT Equipment Rental $0.1 Telecommunications $0.4 Financial and Legal Information Services $0.6	1.2
Printing	0.3
Other Services Advisory and Assistance Services Professional Services On-board Assistance 0.5 IT Program Mission Support 6.1 All Other 0.8 Training 0.3 IPA/Economist Consulting 0.1 Enforcement/Litigation Support 0.3 Other services non-Federal -0.2 Operations and Maintenance 0.3 Space Expansion Design 0.1	8.3
Supplies	0.2
Equipment Cyclical Replacement Furniture and Additional Positions FY 09 and FY 10 $-2.7 IT Equipment and Software $-4.8	-7.5
Building and Fixed Equipment Build Out Office Space /Fixed Equipment $-3.5	-3.5
FY 2010 Appropriation/ 603 Estimated FTE Usage	$168.8

Attachment 2

Commodity Futures Trading Commission
Object Class Summary ($M)

Object Class	FY 2010 President's Budget	FY 2010 Appropriation	FY 2010 Estimated Obligations	Change
11.9 Compensation	86	92	84	-8
12.1 Benefits	24	25	24	-1
21.0 Travel	2	2	2	-
23.2 Lease of Space	14	13	13	-
23.3 Communications and Utilities	4	4	5	+1
24.0 Printing and Reproduction	0	1	1	-
25.2 Other Services	24	27	32	+5
26.0 Supplies	1	1	1	-
31.0 Equipment	3	3	5	+2
32.0 Other Structures/Facilities	3	1	2	+1
TOTAL	$161	$169	$169	-

Commodity Futures Trading Commission
Program Summary ($M)

Program Activity	FY 2010 President's Budget	FY 2010 Appropriation	FY 2010 Estimated Obligations
Market Oversight	35	35	37
Enforcement	43	43	43
Clearing and Intermediary Oversight	29	29	26
Proceedings	2	2	3
General Counsel	13	13	11
Chief Economist	4	4	4
International Affairs	3	3	3
Agency Direction	9	7	10
Administrative Management and Support	31	33	34
Total	$169	$169	$169

Program Summary (FTE)

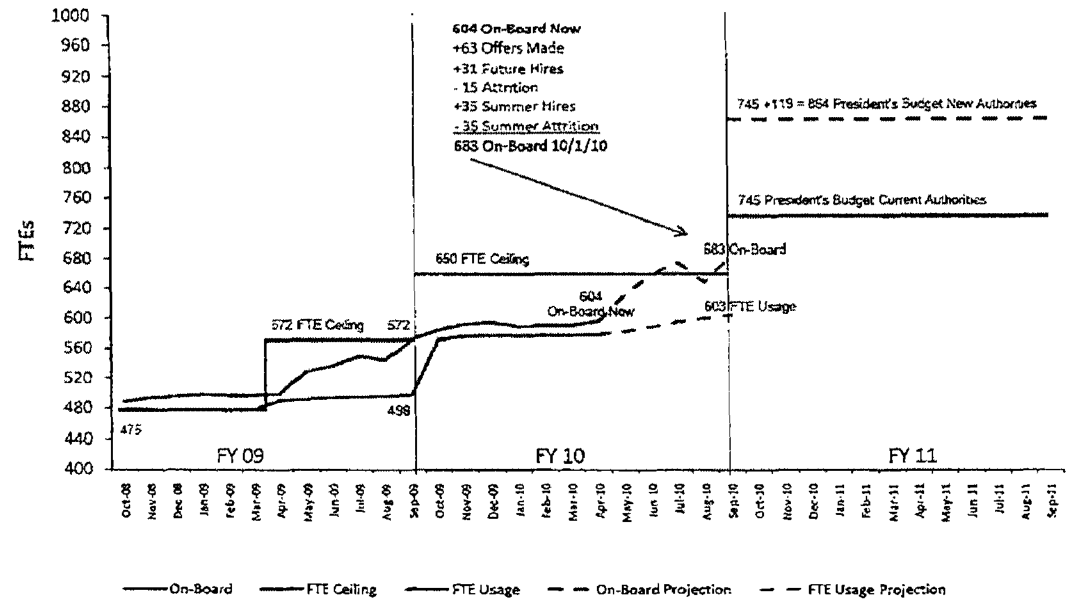
Program Activity	FY 2010 President's Budget	FY 2010 Appropriation	FY 2010 Estimated FTE Usage
Market Oversight	139	139	133
Enforcement	161	161	150
Clearing and Intermediary Oversight	113	113	95
Proceedings	10	10	11
General Counsel	47	47	41
Chief Economist	13	13	14
International Affairs	9	9	9
Agency Direction	35	30	29
Administrative Management and Support	123	128	121
Total	650	650	603

Attachment 3

Commodity Futures Trading Commission

Staffing Plan FY 2009 – FY 2011

Actual and Projected FTE Usage and On-Board Count Compared to Actual and Projected FTE Ceilings



Attachment 4

Brief on Planning and Acquisition of Additional Office Space

FY 2010 Space Expansion Efforts
Major investments were made to expand the DC and Chicago offices using FY 2009 funds. Over 85% of the expansion construction work funded with those monies is complete, with the new office space being delivered during FY 2010 on time and within budget. The remaining construction, which is in DC, is on schedule for completion in December 2010.

FY 2010 funds will be used for further construction costs in the DC and Kansas City Offices. Expansion efforts in New York City will be limited to laying the groundwork for construction work to be funded by requested funds for FY 2011. Total estimated obligation is $3.559 million allocated as follows:

- CFTC has completed lease negotiations for additional space in its DC office tower that will become available on October 1, 2010. FY 2010 construction funds will be obligated in September to pay for this work and it will take four to six months to complete. (estimated obligation $1.253m)

- A technical evaluation of Kansas City office sites which would more than double the existing space footprint is underway. Lease negotiations and design work are expected to be completed no later than mid-August. FY 2010 construction funds will be obligated no later than September to pay for this work, which will take six months to nine months to complete. (estimated obligation $1.969m)

- A technical evaluation of New York office sites will be completed this summer. FY 2010 funding for technical drawings and designs will be obligated by September. Construction funding is anticipated in the requested FY 2011 budget. ($.337m)

Interim Space Options
We will be monitoring space conditions and the specific timing of each new hire and its effect on space conditions. As the need arises, we may lease temporary office space or look to other management options, such as expanded telework arrangements to permit office sharing, etc. As the need for interim solutions arise, we will work through divisions and offices to achieve the best short-term results.

Mr. Kingston: Chairman Gensler you testified before CFTC's Technology Advisory Committee on 7/14/10 (one week before the signing of Dodd-Frank), you stated the CFTC "still actually receive(s) things in paper form....[and is] really just now moving towards 21st Century technology ". Does the Commission still receive items via paper copies and faxes?

Can you give me some examples of what the Commission receives in paper form (market updates, etc)? Please explain the justification for starving your IT resources in favor of hiring personnel beyond the proposed amounts.

Response: For forms that data is entered into the Integrated Surveillance System by hand, the following counts are for the first calendar quarter of 2011:

Form 102: 2,242
Form 40: 1,663
Form 204/304: 1,512
And 10 to 12 cash prices are entered by hand daily.

CFTC executed its FY 2010 spending plan as it informed Congress. The FY 2011 IT budget is $37.2 million, which is the largest in the history of the CFTC.

Mr. Kingston: The FY 2012 Budget proposes an IT investment of $66 million dollars. What assurances can you provide the Committee that this money will not again be transferred from critical IT accounts to hire more Full Time Employees as previously demonstrated?

Response: Technology investment is a high priority of the Commission. The Commission's proposed spending plan with regard to the IT budget request for FY 2012 is detailed in the Commission's supporting documentation as follows:

APPENDIX 4

Investment in Technology

The Commission plans an investment of approximately $66 million FY 2012. Broadly summarized, an investment in Information Technology at the CFTC is an investment in:

- New Technology Initiatives, $28 M:
  - OTC SDR for Swaps not Accepted for Reporting by an Industry SDR
  - SDR Data Aggregation across Asset Classes
  - Standardization and Collection of Order Data for Disruptive Trade Practice Analysis
  - Advanced Computing Platforms for High-Frequency, Algorithmic Trading Surveillance and Enforcement
  - Real-time Reporting Support and Surveillance
  - Improved Market Data Transparency
  - Integrate ISS and TSS Capabilities with New Swaps Data
  - Reengineer FILAC to Collect SEF and SDR Applications and Other Industry Filings
  - Implement Aggregated Position Limits Surveillance
  - Trade Pattern Modeling/Detection Support for TSS
  - CFTC.gov Enhancements
  - Open Interest Reengineering
  - New Data Analysis Software
  - Data Standardization for Trade Data Submission
  - Account Ownership and Control Analysis
  - Improved Document Management and Records Management Program
  - Improved Communications with SharePoint Services
  - Expanded Network Administration for a Growing Commission Workforce
  - Collocation Services
  - Automated Employee Recruitment

- Operations and Maintenance of mission supporting systems, $18 M:
  - Integrated Surveillance System (ISS)
  - Trade Surveillance System (TSS)
  - eLaw
  - CFTC.gov
  - Open Interest
  - RSR, SPARK, FILAC, and others

- Infrastructure, Technology Management, and Quality Control, $20 M:
  - Network Operations
  - Desktop Configuration
  - Security
  - Business Continuity
  - Telecommunications
  - Customer Support
  - Enterprise Architecture
  - Database Administration
  - Configuration Management
  - Testing and Performance Monitoring
  - Project Management

More specifically this investment is:

- $10 million for investments in CFTC SDR data aggregation, Order Data Collection and Standardization, Implement Advanced Computing Platforms for High-Frequency, Algorithmic Trading Surveillance and Enforcement
- $9 million for systems integration of existing large trader and trade systems with swaps data, for systems enhancements such as aggregated position limit surveillance, and significant upgrades to the FILAC system for SEFs and SDRs
- $14 million to provide for Capital Equipment and Software Purchases;
- $5 million to provide for Telecommunication Services;
- $24 million to provide for support services such as financial and legal information services, operations and maintenance, systems analysis for ISS, TSS, eLaw, as well as other smaller mission supporting systems and general operational support; and
- $4 million to provide for IT supplies, operations, and maintenance including intra-governmental payments or cross-services agreements with other government agencies for Internet access and Web site maintenance, personnel payroll system, GSA telephone services, and COOP facilities.

FY 2011

Mr. Kingston: In oral testimony, you said a 35% reduction now for the rest of the year would result in a two-thirds cut to CFTC staff, bringing it to the low 200's or approximately 230 people.

How would a 35% funding decrease affect your IT resources for the remainder of the year?

Would the 35% cut to your budget for the remainder of 2011 necessitate a reduction of employees in order to sustain necessary IT functions like market updates and surveillance?

Response: Under such a scenario the CFTC would be forced to reduce its IT budget to approximately $10 million. This would permit the Agency to maintain its surveillance system at a steady state.

Mr. Kingston: Please give an estimate of the when you expect CFTC data storage capacity to expire under current funding levels and when you would expect it to expire under a 35% cut for the remainder of FY 2011.

Response: CFTC has sufficient storage capacity for this fiscal year and into FY 2012 under both scenarios.

End-Users and Margin Requirements

Mr. Kingston: End-users are non-financial companies that use derivatives to hedge against risks encountered in the course of normal day-to-day business activities. The Senate version contained a specific exemption for end-users, but the conference report dropped the provision believing that there were existing carveouts that broadly exempted end-users from margin requirements. However, Chairman Gensler has indicated he believes the law gives the CFTC the authority to impose margin requirements on end-users. The ambiguity surrounding the potential margin requirements for end-users could have a broad economic impact, forcing them to set aside capital that could otherwise be used to grow their businesses and create jobs.

To-date, the CFTC has exempted end-users from clearing and exchange trading requirements (both would force increased margins) but has not issued a rule governing margin requirements for *non-cleared and non-exchange traded swaps.*

If non-cleared and non-exchange traded swap transactions used by end-users are subject to margin requirements, then the CFTC will be ignoring Congressional intent. Even Congressmen Frank and Peterson have discussed this on the Floor.

Will your rule governing margin requirements for non-cleared and non-exchange traded swaps exempt end-users?

Do you plan on instituting margin requirements of any kind for end-users?

Response: At its public meeting on April 12, 2011, the Commission approved a proposed rule on margin for uncleared swaps. The proposed rule does not require that swap dealers or major swap participatnts post or collect initial or variation margin when transacting with non-financial end-users.

Resources Devoted to Rulemaking

Mr. Kingston: According to the Congressional Research Service, the CFTC has 21 *mandatory* provisions in Dodd-Frank identified for rule-making. There are another 31 discretionary provisions. In your opening statement you mentioned the CFTC has identified "31 areas required by the Dodd-Frank Act" for proposing rules.

What is the difference between the statement in your testimony and the 21 mandatory provisions that the Dodd-Frank Act required?

86 percent of the discretionary rulemaking provisions in Dodd-Frank did not have an expressly defined timeline. At a time when budgetary concerns are pressing, does the Commission plan to limit the number of discretionary rules it proposes to reduce the strain on its limited resources? How many total new rules will the CFTC propose under Dodd-Frank?

Given the budgetary constraints you are facing and the many mandates to develop new rules resulting from the Dodd-Frank legislation can you describe how you are prioritizing the rule-writing process? More specifically, discuss the rationale for devoting staff resources to developing rules and potentially enforcing rules that are not mandated by Dodd-Frank, but rather are discretionary authorities, such as the recently proposed rule to require registration of foreign boards of trade that have previously demonstrated - to the satisfaction of the CFTC staff – that they are comparably regulated?

For the record, provide a list of all rules the Commission has proposed and plans to propose. Identify those that are in combination with other agencies and those that are carried out by the CFTC only. Please reference the rulemaking provision under Dodd-Frank for each rule and indicate whether the rules are mandatory provisions or discretionary provisions under the Dodd-Frank Act. Also include the deadline proscribed under Dodd-Frank for proposing or implementing the rule. Please describe and include the Commission's cost/benefit analysis for each rule issued.

Do you believe the Commission's cost/benefit analysis has adequately addressed unintended consequences?

Response: The Congressional Research Service (CRS) Report stated that "the number of final rules that will be ultimately issued pursuant to the [Dodd-Frank Act] is unknowable." It noted that some provisions of the Dodd-Frank Act "require regulatory agencies to take certain actions, but do not specifically mention 'regulations' or 'rules.'" As an example, it cited Section 732, which amended Section 4d of the Commodity Exchange Act (CEA) to provide that the CFTC "shall require that futures commission merchants and introducing brokers implement conflict-of-interest systems and procedures . . ." The CRS concluded: "It is possible that many of these kinds of provisions will, either by the agencies' choice or by legal necessity, be implemented through the rulemaking process." (See CRS Report at pages 4-6) This chart prepared by CFTC staff identifies the rulemakings underway by our 31 rulemaking teams, including whether they are mandatory, discretionary, or "necessary."

Team	Rule Name	Mandatory (including where statute says "shall")	Necessary to Effectuate Another Purpose	Discretionary
I	Registration of SDs and MSPs	731		
II	Entity Definitions - Joint with SEC	712(d)(1), 721(a), 721(c)		
III	BCS-SDs and MSPs with Counterparties	731		
IV	BCS-Firewall Policies by FCMs and IBs	732		
IV	BCS-CCOs and Annual Compliance Report		731: Statute is self-executing but rulemaking is necessary to provide clarity regarding CCO requirement.	
IV	BCS-Duties of SDs and MSPs; Firewall Policies by SDs and MSPs; SD and MSP Reporting, Recordkeeping, and Daily Trading Records Requirements; Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements; Swap Trading Relationship Documentation; Documentation for SDs and MSPs relating to Title II (210(c)(8))	731		
V	Capital	731		
V	Margin	731		
VI	Segregation for Cleared Swaps		724(a): Statute is self-executing but rulemaking is necessary to fully effectuate segregation requirements for cleared swaps.	
VI	Segregation for Uncleared Swaps; Treatment of Securities in a Portfolio Margining Account	713(c) - Treatment of Securities in a Portfolio Margining Account	724(c): Segregation of Uncleared Swaps. Necessary to effectuate right of counterparties to require swap dealer or major swap participant to segregate funds in connection with uncleared swaps.	

Team	Rule Name	Mandatory (including where statute says "shall")	Necessary to Effectuate Another Purpose	Discretionary
VII/X	DCO-Financial Resources Requirements		725: Statute is self-executing but rulemaking is necessary in light of: 1) new clearing requirement for swaps; 2) requirements for SIDCO's under Section 805; and 3) statutory changes to Core Principles that are not covered by existing rules or current Application Guidance and Acceptable Practices.	
VII	DCO-General Legal/Compliance		725: Same as above.	
VII	DCO-Straight Through Processing		725: Same as above.	
VII/X	DCO-Information Management Requirements		725: Same as above.	
VII/X	DCO-Risk Management Requirements		725: Same as above.	
VIII	Process for Review of Swaps for Mandatory Clearing	723(a)(3)		
IX	Conflict of Interest (180 days) - DCOs, DCMs, SEFs	726, 725(d)		725(c), 735(b), 733
IX	Governance - DCOs, DCMs, SEFs			725(c), 735(b), 733
XI	End-User Exception to Mandatory Clearing	723(a)(3)		
XII	DCMs		735: Statute is self-executing but rulemaking is necessary in light of: 1) statutory changes to Core Principles that are not covered by existing rules, and Application Guidance and Acceptable Practices; 2) new trade execution requirement for swaps; and 3) ensure consistency, where applicable, with SEF rules.	
XIII	SEFs	733		

Team	Rule Name	Mandatory (including where statute says "shall")	Necessary to Effectuate Another Purpose	Discretionary
XIV	FBOTs		738(a)(4): Necessary to effectuate Congressional intent to have a more robust procedure to permit foreign boards of trade to provide access to U.S. persons rather than relying on staff no-action letters.	
XV	Part 40		745: Statute is self-executing but rulemaking is necessary to establish a process for submission of new rules and rule amendments, and for review of event contracts and swaps.	
XVI	Swap Data Repositories	728		
XVI	Swap data recordkeeping and reporting requirements for pre-enactment and transition swaps	723, 729		
XVI	Interim Final Rule for Pre-enactment Swaps	723, 729		
XVI	Interim Final Rule for Post-enactment Swaps		723	
XVII	Swap Data Recordkeeping and Reporting Requirements	727, 728, 729		
XVIII	Real-Time Reporting	727		
XIX	Agricultural Commodity Definition	723(c)(3)		
XIX	Agricultural Swaps and Commodity Options	712(d)(1), 721(c), 723(c)(3)		
XX	Regulation of Off-Exchange Retail Foreign Exchange Transactions and Intermediaries		Necessary to effectuate Sec. 13101 of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat. 1651, 2189-2204 (2008) and necessary to avoid a ban on retail, off-exchange forex under Section 742 of Dodd Frank.	

Team	Rule Name	Mandatory (including where statute says "shall")	Necessary to Effectuate Another Purpose	Discretionary
XXI	Product Definitions (Joint with SEC)	712(a)(8), 712(d)(1), 721(c)		
XXIII	Antimanipulation	753(a)		
XXIV	Disruptive Trading Practices Interpretive Order			747
XXV	Whistleblower Provisions	748		
XXVI	Large Trader Reporting	730		
XXVI	Position Limits for Derivatives	737		
XXVII	Investment Adviser Reporting - Joint with SEC	406(2)		
XXVII	CPO/CTA Advisors-Compliance Obligations/Repeal of Exemptions			CEA Section 8a(5)
XXVIII	Volcker Rule	619		
XXIX	Removing Reliance on Credit Ratings	939A(b)		
XXIX	Investment of Customer Funds - revisions to 1.25 and 30.7	939A(b) (only removal of credit ratings)		
XXX	FCRA: Opt-out and Disposal Rules	1088(b)(3)		
XXX	GLB: Privacy of Consumer Information	1093(3)		
XXXI	Conforming Rules-Part 3		Necessary in light of statutory extension of certain CEA provisions to swaps.	
XXXI	Conforming Rules-Part 4 (CPOs/CTAs)		Necessary in light of statutory extension of certain CEA provisions to swaps.	
XXXI	Conforming DCIO/DMO Rules-Parts 1, 8, 9, 155, 166		Necessary in light of statutory extension of certain CEA provisions to swaps.	

Some of the rulemakings proposed by the CFTC to date fall into this category recognized by CRS, namely, rulemakings that are necessary to effectuate another purpose under the CEA. For example, with respect to foreign boards of trade (FBOTs), as referenced in this question, rulemaking by the Commission is necessary to effectuate Congressional intent to have a more robust procedure, and a firmer legal foundation, to permit FBOTs to provide direct access to U.S. persons, rather than continuing to rely upon staff "no-action" letters as has been done over the past two decades. Only a very few of the rulemakings being developed by the CFTC are in the discretionary category.

Pursuant to the Dodd-Frank Act, the CFTC has issued 48 proposed rulemakings, two interim final rules and one final rule. At this point, the Commission has substantially completed the proposal phase of the rule-writing process to implement the Dodd-Frank Act, having promulgated proposed rules covering all the areas set out in the statute with the exception of the Volcker Rule (for which the statute sets a different timeline).

The Commission strives to identify and consider regulatory approaches that reduce burdens and maintain flexibility and freedom of choice for the public, and also to address unintended consequences. The CFTC seeks public comment on technical information and data considered during the regulatory process. Each proposed rulemaking includes a consideration of costs and benefits as required under section 15(a) of the CEA. These considerations are presented not only in the cost-benefit section of each CFTC rulemaking release, but additionally are discussed throughout the release in compliance with the Administrative Procedure Act, which requires the CFTC to set forth legal, factual and policy bases for its rules. The Commission seeks public comment with regard to associated costs and benefits.

More Regulation for Exchanges That Performed Well During Financial Crisis

Mr. Kingston: In August of 2009, when the Administration submitted draft legislation it went beyond regulating the bi-lateral, over-the-counter derivatives market and also included several changes to the manner in which transparent exchanges listing futures contracts are permitted to comply with the principles by which they are governed - I am informed that these changes originated with the CFTC – one might ask why this was necessary given that the exchanges, where futures contracts trade, were one of few sectors that performed well during the financial crisis? Why the need to expand the CFTC's governing of exchanges beyond that which was working well, particularly given your resource constraints and the apparent desire to take on more responsibility in the over-the-counter space?

Response: Title VII of the Dodd-Frank Act permits futures exchanges (which the Commodity Exchange Act calls "designated contract markets," or "DCMs") to also list swaps for trading. The statute provides the CFTC with tools for oversight of DCM swap trading given: i) the centrality of the trade execution requirement for standardized swaps to achieving Title VII's objective of enhancing transparency; and ii) the need to ensure consistency, where applicable, between the rules for DCMs and the rules for swap execution facilities ("SEFs") that also make swaps available for trading. The Dodd-Frank Act does not require DCMs to comply with separate core principles governing their trading of swaps and futures. Accordingly, the provisions enacted in the Dodd-Frank Act with respect to the trading of swaps on a DCM apply to the trading of futures contracts on the DCM as well.

Pay Scale and Merit Based Compensation Adjustments

Mr. Kingston: In the FY 2012 Budget Request, there is an increase of $1.125 million for "Merit Adjustments" and "Incentive Awards" for Full Time Employees. That is on top of whatever the baseline amount is.
Can you please explain to the Subcommittee what the Merit Based Compensation Adjustments and Incentive Awards are? Is this a form of employee bonuses?

Response: The Merit Based Compensation Adjustment is the CFTC's annual pay increase and is based directly on an employee's performance rating for that year. (Since receiving independent pay authority in 2002, the CFTC eliminated the normal annual cost of living adjustments, longevity increases, and performance bonuses received by employees under the General Schedule in favor of a merit-based pay-for-performance system.) Incentive Awards are one-time cash awards that recognize CFTC employees for special projects or one-time contributions outside the pay-for-performance system.

Mr. Kingston: CFTC ranks as one of the top 10 places to work in the federal government. Furthermore, there is a high amount of qualified professionals to fill positions following the Wall Street crisis and CFTC uses a higher pay scale (CT Scale) different from that of other federal agencies. The IG while conducting a study on recruitment and retention was "struck by the fact that several employees who stated they were not affected by the economic downturn told us they simply wanted to work at CFTC, even with a substantial pay cut."

Given these reasons, why would the Commission not focus its budgetary resources on more important issues like improving its outdated technology?

Response: By statute, compensation at the CFTC is set at a level that maintains parity with the other Federal financial regulatory agencies. Like the other regulators with that same benchmarking requirement, however, the CFTC faces agency-specific recruitment challenges that vary over time based on external factors such as legislation, industry developments and the state of the job market. One current challenge is acquiring additional staffers with expertise in swaps to carry out new oversight responsibilities under the Dodd-Frank Act. Nevertheless, the agency needs both information technology resources and highly-qualified human resources to oversee the markets.

Position Limits

Mr. Kingston: I am concerned about the rigor of the CFTC's current cost-benefit analysis of proposed rules. CFTC Commissioner Sommers has stated publicly that the CFTC is doing the "absolute minimum" to comply with the cost-benefit analysis required by the Commodity Exchange Act ("CEA"). What level of cost-benefit analysis is currently occurring at the agency before rules are proposed?

Response: Since Section 15(a) was added to the Commodity Exchange Act in 2000, the CFTC has been required to consider the costs and benefits related to any rulemaking in light of:

- protection of market participants and the public;
- the efficiency, competitiveness and financial integrity of the markets;
- price discovery;
- sound risk management practices; and
- the public interest.

The CFTC's application of these statutory requirements is informed by its experience regulating and surveilling financial markets and examining the operations of exchanges, clearinghouses and financial intermediaries. These considerations are presented not only in the cost-benefit section of each Dodd-Frank rulemaking release, but throughout each release in compliance with the Administrative Procedures Act (APA). The APA requires that each rulemaking set forth the legal, factual and policy bases for the action.

Through meetings with industry and the public and through the receipt of public comments, the Commission obtained the views of informed parties to improve its understanding of costs and benefits before many of the CFTC's more significant rulemakings to date were proposed. CFTC staff has hosted public roundtables to assist in preparation of proposed rules in line with industry practices. This has allowed us to mitigate compliance costs wherever possible, to the extent consistent with the obligation of the CFTC to promote market integrity, reduce risk and increase transparency as directed by Congress in the Dodd-Frank Act. Information about each of these meetings, as well as full transcripts of the roundtables, is available on the CFTC's website and has been factored into applicable rulemakings.

Mr. Kingston: I am concerned that the CFTC is not adequately considering the economic impact of some of its proposed rules. In particular, regarding the position limits proposed rule. Some mutual funds have expressed concerns that the imposition of position limits may have unintended consequences on these funds, perhaps by forcing artificial liquidations whenever the limits are approached. Most of the investors in these funds are small investors who invest in commodity index funds to hedge against inflation and diversify their portfolios. I am concerned that the CFTC's position limit proposal sets position limits too aggressively and may deprive these small investors of a valuable, cost-effective way for them to diversify their investment portfolios.

What steps is the CFTC taking to ensure that these small investors are not harmed by position limits?

Response: The CFTC is carefully reviewing all comments submitted with respect to this and other rulemakings and will account for those comments when issuing a final rule.

Mr. Kingston: Dodd-Frank directs the CFTC to adopt position limits "as appropriate." Given that the CFTC does not currently have comprehensive data for the swaps markets, how does it intend to ensure that the limits it sets are appropriate - particularly for non-spot months for which there is less trading data currently available?

Response: The Commission's proposed rule would set non-spot-month position limits using a formula based on percentage of open interest for each commodity covered. The proposed rule provides that the non-spot-month limits will take effect once the Commission has received the necessary data on the total size of the swaps and futures market collected through the separately proposed position reporting rule.

Mr. Kingston: Isn't there a real danger that the CFTC will set position limits prematurely, impeding the liquidity of the commodity derivatives markets and perhaps driving business out of the U.S. onto foreign boards of trade?

Response: The Commission will review all comments received in response to the proposed rule and will respond to those comments in the development of the final rule.

Mr. Kingston: CFTC Commissioners Sommers and O'Malia have noted that imposing position limits without a thorough understanding of these markets is a flawed approach. Given this lack of data and the fact that the CFTC does not currently even know the size of the commodity markets, shouldn't the CFTC wait determine how to implement Phase Two of the position limit proposal until it has more information?

Response: The proposed rule provides that the non-spot-month limits will take effect once the Commission has received the necessary data on the total size of the swaps and futures market collected through the separately proposed position reporting rule.

Mr. Kingston: Chairman Gensler, in granting the CFTC the authority to set position limits to prevent excessive speculation, Congress also granted the CFTC the authority to exempt certain types of traders. Under the proposed rule issued in January, however, the CFTC grants no exemptions from position limits. CFTC Commissioner Sommers has expressed her concern that the proposed rule fails to consider imposing different limits on different groups or classes of traders, as contemplated by Dodd-Frank. During your recent testimony before the House Financial Services Committee, you stated you were keeping an "open mind" on the matter.

Under what conditions is the CFTC prepared to use its exemptive authority under Dodd-Frank to ensure that the final rules promulgated are appropriately and narrowly tailored to achieve their objectives without causing unintended harm to the markets or ordinary investors?

Response: Under the proposed rulemaking, bona fide hedgers and swap dealers that accommodate bona fide hedgers would be exempt from position limits. As part of the rulemaking process, the Commission will consider whether other traders can qualify for tailored exemptions

Swap Execution Facilities

Mr. Kingston: In Dodd-Frank, it states that the CFTC may establish Swap Execution Facilities (SEF) ownership limits if it "deems them necessary." In your proposed rule on SEFs, you have set ownership limits. How has the CFTC arrived at the conclusion that SEF ownership limits are necessary and what data or studies did you use to arrive as this conclusion?

Response: The Dodd-Frank Act directed the Commission – within 180 days of the Act's enactment – to adopt rules to mitigate conflicts of interest in the operation of SEFs, DCMs and DCOs. On August 8, 2010, CFTC and SEC staff hosted a roundtable discussion at which potential SEF operators, swap dealers, clearinghouses, designated contract markets, investor advocates, academics and others presented their views regarding the Act's conflict of interest and governance provisions. CFTC staff assigned to work on implementation of this provision of the statute also held numerous individual meetings with interested parties and received substantive comments through a link on the Commission website established specifically for that purpose. The staff's recommendation and action on the proposed rule were informed by the many statements and submissions provided through these venues. The transcript of the roundtable and copies of submitted materials are available on the Commission's website. In addition, the Commission has received more than 190 comments on the proposed rule itself. These submissions also are available on the Commission's website.

U.S. Implementing Derivates Regulations

Mr. Kingston: In reference to the US implementing derivatives regulations 12-18 months ahead of other countries:

Has the CFTC assessed the potential economic consequences if other regions adopt lesser regulatory standards?

Response: The Dodd-Frank Act called on regulators to harmonize swaps oversight with our foreign counterparts. The CFTC has been consulting closely with the European Commission, France, Switzerland, Japan, Canada, the United Kingdom and others to avoid gaps that could lead to regulatory arbitrage across borders. The CFTC co-chairs an over-the-counter (OTC) derivatives group of the International Organization of Securities Commissions (IOSCO) aimed to develop and coordinate internationally on OTC derivatives reform to ensure that agreed-upon standards are applied globally.

Mr. Kingston: What steps has the CFTC taken to avoid disadvantaging US firms?

Response: The Commission has reached out to and is actively consulting and coordinating with international regulators to harmonize swaps oversight.

As it does with domestic regulators, Commission staff is sharing memos, term sheets and draft work product with international regulators. Discussions have focused on clearing and trading requirements, clearinghouses more generally and swaps data reporting issues, among many other topics.

In September of last year, the European Commission (EC) released its swaps proposal, which covers the entire derivatives marketplace – both bilateral and cleared – and the entire product suite, including interest rate swaps, currency swaps, commodity swaps, equity swaps and credit default swaps.

The proposal includes requirements for central clearing of swaps, robust oversight of central counterparties and reporting of all swaps to trade repositories. The EC also is considering revisions to its existing Markets in Financial Instruments Directive, which includes a trade execution requirement, the creation of a report with aggregate data on the markets similar to the CFTC's Commitments of Traders reports and accountability levels or position limits on various commodities.

Mr. Kingston: If the new regulations mandated by Dodd-Frank had been in effect 5 years ago, would they have prevented the financial crisis?

Response: In 2008, the financial system failed the American public. The financial regulatory system also failed the American public. Though there are certainly many causes of the crisis, I think most would agree that the unregulated swaps marketplace played a central role. The Dodd-Frank Act brought regulation to the swaps markets for the first time. The Act provides for regulation of swap dealers, including capital and margin requirements. It also requires that most standardized swaps be submitted to clearinghouses to lower risk and requires that most standardized swaps be traded on centralized trading platforms to increase market transparency. The Act further requires that transaction information on all swaps be submitted to swap data repositories so that there is transparency to regulators. Once implemented, these important initiatives will go a long way to ensure that the American public doesn't again bear the risk of the financial system, and that the system works for the American public, investors, small businesses, retirees and homeowners.

Legislative Proposal for User Fees

Mr. Kingston: The President's fiscal year 2012 budget request includes a legislative proposal to collect user fees to fund the Commission's financial regulation activities. The budget assumes that the enactment of these fees will result in a final appropriation from the general fund of not more than $191,000,000.

What is the current status of that legislative proposal?

When does the Administration plan on submitting the legislation to the Congress?

When would the legislation have to be enacted for the collections to be in place in order to collect $191,000,000?

What would the fee be based on, who would have to pay the fee and how much would the fee be?

How much does the Commission expect to collect in 2012?

Response: I am not aware of the details of the Administration's proposal in this regard and do not know when it will submit legislation.

Questions for the Record
Rep. Marcy Kaptur
March 17, 2011

HR 1 Impacts

Ms. Kaptur: Is it true that under HR 1, staffing levels could be reduced by sixty five percent to a FTE level of 230?

When is the last time if ever the CFTC had 230 FTE's?

Would CFTC have to furlough staff under levels proposed in HR 1?

Response: If the CFTC had received an FY 2011 appropriation equal to its FY 2008 funding level for the entire fiscal year, it would have represented a reduction of more than \$57.5 million, or 34 percent, relative to FY 2010. The FY 2010 level was \$169 million, while in FY 2008 the agency received \$111 million.

If HR 1 had been enacted halfway through the fiscal year, even after enacting major cuts throughout the agency's budget, the CFTC still would have had no choice but to implement significant reductions-in-force, furloughs and/or office closings to bring down personnel by roughly 442 full-time equivalent (FTE), which constitutes a 65 percent reduction. The reason the impact is so severe is that 72 percent of the CFTC's FY 2011 budget was salary and expenses. The fact that the proposed cut to 2008 levels would have happened mid-year and would have been retroactive would have aggravated the impact. The agency would have needed to shrink to a workforce of 230 FTE, according to staff estimates. The Commission's lowest FTE staffing allocation ever was about 445.

Investigations

Ms. Kaptur: Mr. Gensler, I am particularly worried about the consequence of HR 1 on the ability of the Commodity Futures Trading Commission to engage in oversight and investigations of the markets. For Fiscal Year 2011, the Commodity Futures Trading Commission opened nearly 200 investigations. What consequence would HR 1 have on your ability to follow these investigations to fruition?

Based on CFTC estimates, there are nearly 400 open investigations occurring at the CFTC. What affect would HR 1 have on your ability to continue these investigations?

The CFTC has nationwide enforcement authority to investigate and prosecute violations of the Commodity Exchange Act and Commission Regulations involving fraud, market manipulation and other abuses. Yet, if you don't have the staff, it is impossible for you to do your job. Is it true that during between FY 2008 and FY 2011, you have obtained civil monetary penalties that exceed $1.3 billion? What would be the impact of HR 1 on your ability to continue to obtain these civil monetary penalties under the HR 1 period?

From information that I have been provided, the CFTC has devoted an increasing number of staff to enforcement. From a low of approximately 115 in FY 2008 to a high of nearly 180 in FY 2010, enforcement at a time of increasing size in the commodities markets is critical. Please outline for the committee the consequence of HR 1 on your ability to prosecute and investigate.

Response: If H.R. 1 as passed by the House had been enacted, the CFTC would have been severely hampered in all areas, including with respect to investigations and enforcement actions of any kind. Quality tips and investigations of potential misconduct would have gone unpursued and investigations would have been slowed or delayed. Litigation resources also would have been reduced.

Ms. Kaptur: For the last several years, the CFTC has imposed significantly greater civil monetary penalties than it has been able to collect with a high of $234 million imposed in FY 08 and $140.7 million collected to a low of $99 million imposed and $17 million collected in FY 09. From the information I have been provided, CFTC has imposed $152.6 million and collected $3.3 million in Fiscal Year 2011. If HR 1 is implemented, please comment on your ability to collect fines that have been imposed?

Response: Commission enforcement actions have led to the award and payment of penalties to the Treasury as follows for FY 2008 – 2011 (as of 3/21/2011):

	Penalties Imposed	Penalties Collected
FY 08	$234,835,121	$140,745,252
FY 09	$99,489,609	$17,362,486
FY 10	$136,040,764	$75,111,676
FY 11 (3/21)	$233,822,394	$5,749,649
Total	$704,187,888	$238,969,063

Ms. Kaptur: Do you agree with former Federal Reserve Chairman Alan Greenspan's statement that Risk management can never achieve perfection?

Ms. Kaptur: Could governments, through their regulatory authorities, prevented the economic harm that speculation caused our nation?

Response: While that statement regarding risk management may be true, the Dodd-Frank Act directly deals with the risks, which, unaddressed, so damaged our nation in 2008. The Act provides for regulation of swap dealers, including capital and margin requirements. It requires that most standardized swaps be submitted to centralized clearinghouses be traded on transparent platforms. It also requires that transaction information on all swaps be submitted to swap data repositories so that there is transparency to regulators. These important initiatives will go a long way toward making sure that the American public doesn't again bear the risk of the financial system and that the system works for the American public, investors, small businesses, retirees and homeowners.

Ms. Kaptur: Do you believe in regulating position limited to stop speculation?

Response: When the CFTC set position limits in the past, the agency sought to ensure that the markets were made up of a broad group of market participants with a diversity of views. At the core of the agency's obligations is promoting market integrity, which it historically has interpreted to include ensuring that markets do not become too concentrated.

Position limits help to protect the markets both in times of clear skies and when there is a storm on the horizon. In 1981, the Commission said that "the capacity of any contract market to absorb the establishment and liquidation of large speculative positions in an orderly manner is related to the relative size of such positions, i.e., the capacity of the market is not unlimited."

The Commission's pending proposed rule would implement important new authorities in the Dodd-Frank Act to prevent excessive speculation and manipulation in the derivatives markets.

Ms. Kaptur: To what extent does the CFTC coordinate its investigations or investigative strategies with fellow regulator the SEC?

Response: CFTC staff and SEC staff meet regularly to identify and discuss matters of mutual interest, including identification and referral of matters within the agencies' respective jurisdiction, legal issues which may affect enforcement interests and training opportunities. The CFTC's and SEC's Directors of their respective Divisions of Enforcement are co-chairs of the President's Financial Fraud Enforcement Task Force Security and Commodity Fraud Working Group. Through this and other regional task force initiatives, the Commissions share strategies and insights for their respective programs. CFTC and SEC enforcement staff also coordinate on investigations of mutual interest (matters of overlapping jurisdiction, both in terms of the products and the market participants involved). Access to each agency's particular investigative files is routinely granted by one agency to the other through formal access procedures, so that documents and testimony are shared. In some matters, investigative testimony is taken jointly by both agencies, so that the witness need only appear once.

WEDNESDAY, MARCH 30, 2011.

FARM AND FOREIGN AGRICULTURAL SERVICES

WITNESSES

MICHAEL T. SCUSE, ACTING UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES

JOHN D. BREWER, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

VAL DOLCINI, ACTING ADMINISTRATOR, FARM SERVICE AGENCY

WILLIAM J. MURPHY, ADMINISTRATOR, RISK MANAGEMENT AGENCY

MICHAEL YOUNG, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. KINGSTON. Seems like everybody had the great idea that 10 o'clock Wednesdays was the proper time to have all hearings. So people are picking and choosing and Mr. Farr is on his way. Folks will kind of come and go. Your testimony has been submitted, so you are welcome to sum it up.

But I will turn the gavel over to you, but have a couple of comments that I wanted to say on the outside. With our budget situation, increases in budget are going to be very difficult to come by. And so I think one of the things that we are going to be doing with you through this process is, you know, are there areas that you can reduce and if not, there might be people who will reduce it for you. So it is always better if we sit down at the table and talk.

And with that, I will go ahead and yield the floor to you, and the committee will be in order, and we will go ahead and convene.

OPENING STATEMENT

Mr. SCUSE. Thank you, Mr. Chairman. Mr. Chairman and members of the subcommittee, I am pleased to be with you today to present our 2012 budget and program proposals for the Farm and Foreign Agricultural Services—FFAS. And accompanying me today on my far right I have William Murphy, who is the Administrator of our Risk Management Agency. To my immediate right I have John Brewer, who is the Administrator for the Foreign Agricultural Service. To my immediate left is Acting Administrator for the Farm Service Agency, Val Dolcini. And to my far left, I have Michael Young, the Director of the Department's Office of Budget and Program Analysis. So these are the gentlemen that will help me today hopefully answer the questions that are posed to us.

Mr. Chairman, we appreciate the difficulties of today's budget environment and the need to reduce the Federal deficit as you spoke to in your comments. We have reviewed our programs and developed budget proposals for 2012 that will streamline agency operations, improve efficiency, and reduce our administrative costs.

Turning first to the Farm Service Agency—FSA, the budget request for salaries and expenses for FSA reflects our focus on streamlining processes, investing in more efficient systems, and evaluating our internal costs to maximize efficiency. The total request for appropriated sources is $1.7 billion, a net increase of $143 million over the 2011 annualized continuing resolution level.

Within the request is a decrease of $41 million to be achieved through a proposed reduction of 504 Federal staff-years, a decrease in funding for non-IT service contracts, and a decrease for travel and relocation expenses. FSA has taken aggressive action over the past several years to reduce discretionary administrative expenditures and will continue to do so during 2012. The budget also provides increases of $60 million for civil rights settlement costs and $2 million for new initiatives to improve tribal relations.

For critically needed information technology improvements, the budget includes increases of $96 million to continue the agency's Modernize and Innovate the Delivery of Agricultural Systems initiative, or as we call it MIDAS, and $26 million to support the Department's effort to modernize and upgrade the common computing environment for the service center agencies.

FSA also plays a critical role in our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain credit they need to continue their farming operations. The 2012 budget proposes a total program level of about $4.7 billion, reflecting credit usage forecast at the time that this budget was developed.

In 2012, the Crop Insurance Program provided about $78 billion in protection on 256 million acres. I think that shows the importance of the Risk Management Agency—RMA. Our current projection is that indemnity payments to producers on their 2010 crops will be about $3.5 billion on a premium volume of just over $7.5 billion. Our current projection for 2012 shows the value of protection will rise considerably largely due to commodity price increases.

For salaries and expenses of RMA, $82 million in discretionary spending is proposed, an increase of $2 million above the 2011 annualized continuing resolution amount. The request includes additional funding for maintenance of the RMA IT system.

Our Foreign Agricultural Service—FAS, I would like to turn to FAS, the lead agency for the Department's international activities and the forefront of our efforts to expand and preserve overseas markets and foster global food security. The 2012 budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and create new market opportunities overseas. The budget provides a program level of $236 million, an increase of $49 million above the 2011 annualized continuing resolution amount.

The budget provides an increase of $20 million for FAS trade expansion and promotion activities as part of the National Export Initiative. The FAS budget includes funding of $14.6 million for the management and support of the Department's participation in reconstruction and stabilization activities, including Provincial Reconstruction Teams in Afghanistan and Iraq.

For the International Food Assistance Program, the budget includes appropriated funding of just under $1.9 billion, including

$200 million for the McGovern-Dole International Food for Education and Child Nutrition Program and nearly $1.7 billion for Food for Peace Title II grant food assistance programs.

Mr. Chairman, I thank you for the opportunity to present our 2012 budget and program proposals. I would be pleased to answer any questions that you and other members of the subcommittee may have.

[The information follows:]

Statement by Michael T. Scuse
Acting Under Secretary for
Farm and Foreign Agricultural Services
United States Department of Agriculture
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to present the 2012 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). I am accompanied by the Administrators of the three agencies that comprise our mission area: William Murphy, Administrator of the Risk Management Agency; John Brewer, Administrator of the Foreign Agricultural Service; and Val Dolcini, Acting Administrator of the Farm Service Agency. We are also accompanied by Michael Young, Director of the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2012 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to your questions.

Mr. Chairman, the FFAS mission area carries out a diverse array of programs and delivers services that support a competitive agricultural system and provide the foundation for prosperity throughout rural America. The programs we deliver to America's farmers and ranchers – price and income support, farm credit assistance, conservation and environmental incentives, risk management tools, and trade expansion and export promotion programs – provide a critical safety net for our producers.

The budget environment we find ourselves in today is difficult, and difficult decisions had to be made in developing the 2012 President's budget. In order to contribute our part to the goal of restoring fiscal discipline to the Federal budget, we have reviewed our programs and developed budget proposals that will help to streamline agency operations, improve efficiency, and reduce our administrative costs. Although we are presenting a constrained 2012 budget, we believe it does provide the resources that are needed to meet our mission area objectives.

Farm Service Agency

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. FSA provides producers with access to farm programs such as direct and countercyclical payments, commodity marketing assistance loans, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP).

Farm Program Delivery

The 2012 budget request for FSA reflects the difficult decisions that needed to be made in this budget environment. The budget focuses on streamlining processes, investing in more efficient systems, and evaluating our internal costs to maximize efficiency.

We know the Subcommittee is aware of FSA's long-standing need to upgrade its aging technology, and we would like to thank you for the $117.3 million in support this Subcommittee has provided thus far for information technology (IT) modernization initiatives. We appreciate the support the Subcommittee has provided, particularly in view of the challenges faced during times of budgetary constraint.

FSA has made progress in its efforts to improve the quality of its service to its clientele in recent years, although additional improvements are needed and many challenges remain. Since enactment of the 2008 Farm Bill, FSA has rapidly implemented newly authorized farm programs, including such complex programs as the Average Crop Revenue Election

(ACRE) and Supplemental Revenue Assistance Payments (SURE) programs. Many of these activities were effectively carried out with very few additional resources.

However, the agency's progress in implementation and delivery of these complex new programs in a timely, secure, and customer friendly manner has become increasingly difficult to ensure without significant additional progress in modernizing our business processes and IT systems as has been discussed previously with this Subcommittee. Important gains have been made as a result of recent appropriations, and continuation of these efforts is our highest priority for the 2012 budget request.

Information Technology Systems

The role of IT is crucial for FSA's capacity to continue to deliver adequate services to its farm clientele. After suffering from severe performance problems several years ago, the IT infrastructure supporting the delivery system has been stabilized and set up to transition to a 21st century IT environment, but this transition is far from complete and more funding is required. Therefore, the 2012 budget requests a funding increase for implementation costs of these IT system modernization efforts. This funding will augment the IT investments already made in recent years and will go a long way toward achieving the program delivery goals of improved quality of service, operational efficiency, and greater accountability.

The short-term stabilization efforts used to correct the most urgent deficiencies in FSA's IT network infrastructure have been successful in averting crippling breakdowns of the sort experienced three or four years ago. However, it is still essential that FSA program delivery be transitioned to a modern, centralized web-based system in order to meet minimum expectations for reliable, timely, and accountable program delivery in the future. This is the principal goal behind the agency's Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiative.

In the summer of 2010, MIDAS moved from the planning and acquisition phase to the implementation phase. FSA has established a Project Management Office (PMO) to manage the day-to-day operations and provide the capability to acquire, manage, and deploy the MIDAS program. The PMO is a critical component of our effort to ensure that funding provided by this Committee is used effectively and efficiently. FSA, in coordination with the General Services Administration (GSA) recently finalized all necessary vendor contracts for the implementation of MIDAS. Consistent and reliable funding is critical to ensure that these contracts can be fully executed and deliverables completed. Lapses in funding or uncertainty over the amount that will be available could result in developmental delays and cost over-runs.

MIDAS will improve farm program delivery by making program benefits more accessible to producers. It will achieve this primarily by streamlining FSA business processes and moving FSA's IT system toward a more fully integrated IT architecture. MIDAS will build on the Common Computing Environment (CCE), a web-based platform where most of FSA's automated business processes will ultimately reside. The challenge for the initiative is that the business processes and transaction methods that are being moved to the CCE platform are highly fragmented after years of program implementation on other systems. The fully implemented MIDAS program will remedy this by reducing the complexity of these processes.

The budget also includes a request for $60 million to begin a refresh of the CCE. Of this amount, $26 million is requested in the FSA budget, the remaining amounts are requested by Rural Development and the Natural Resources Conservation Service. This funding will be used to replace outdated components of the IT infrastructure, many of which have exceeded their expected life cycles, in order to reduce system vulnerabilities to failure and improve the performance and effectiveness of the shared infrastructure. These improvements will allow the Service Center Agencies to serve program participants more efficiently with a more flexible and reliable IT infrastructure. This funding will allow for the first system-wide refresh of the CCE since the infrastructure was implemented in 2000. In addition, as the components of the CCE are replaced, USDA will implement configuration changes to support the delivery of current and future programs more effectively. As part of this process, the Department will improve system security, reduce the long term cost of infrastructure services, and improve service reliability.

Salaries and Expenses

The 2012 budget request for salaries and expenses for FSA reflects our focus on streamlining processes, investing in more efficient systems, and evaluating our internal costs to maximize efficiency. The 2012 budget requests $1.7 billion from appropriated sources including credit reform transfers, for a net increase of $143.3 million over the 2011 annualized continuing resolution level. The request reflects a decrease of $41.4 million from staff year reductions and administrative efficiencies, an increase of $122.3 million to fund critical IT replacement and modernization projects essential to support core agency operations, an increase of $60 million for Civil Rights Settlement Costs, and an increase of $2.4 million to fund new initiatives to improve Tribal Relations. Congressional provision for two-year availability of salaries and expenses funding for IT in the 2012 budget would enable FSA to continue strategic management of IT planning, development, and execution of FSA mission priorities.

FSA has taken aggressive action over the past several years and will continue to reduce discretionary administrative expenditures and operate within available funding during 2012. The 2012 budget reflects a decrease of $27 million for a proposed reduction of 504 Federal staff years, a $7.9 million decrease by reducing non-IT service contracts, and a $6.5 million decrease for travel and relocation expenses. The 2012 salaries and expenses request supports a total of 4,590 Federal staff-years, a decrease of 504 below the 2011 level, and 8,991 non-Federal-staff years. These staffing levels are essential to enable FSA to handle the workload associated with the broad array of complex programs entrusted to us.

The FSA request for IT includes increases of $96.3 million to continue the MIDAS project and $26 million to support the Department's effort to modernize and upgrade the CCE for the service center agencies. As noted previously, when complete, MIDAS will provide significant benefits to employees, farmers, and ranchers covering FSA's farm programs, including price support, conservation and environmental, and production and emergency disaster programs.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct and guaranteed loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers.

The 2012 budget proposes a total program level of about $4.7 billion. Of this total, nearly $1.6 billion is requested for direct loans and over $3.1 billion for guaranteed loans offered in cooperation with private lenders. These levels reflect credit usage forecasts at the time the budget was developed.

For direct farm ownership loans, we are requesting a loan level of $475 million to extend credit to about 2,900 small and beginning farmers to purchase or improve a family farm. For direct farm operating loans, we are requesting a program level of $1.05 billion to provide production loans to approximately 16,400 family farmers. The funding for direct operating loans reflects a shift in funding from the more expensive guaranteed operating loans program with interest assistance. As a result of this shift, more farmers will receive farm loan assistance through FSA at less cost to taxpayers.

For guaranteed farm ownership loans, we are requesting a loan level of $1.5 billion to provide about 4,200 farmers the opportunity to acquire their own farm or to preserve an existing one. For guaranteed farm operating loans, we propose a loan level of approximately $1.5 billion to assist over 6,500 producers in financing their farming operations. The guaranteed loan programs enable private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans.

In addition, the budget proposes program levels of $2 million for Indian tribe land acquisition loans, $60 million for boll weevil eradication loans, $150 million for guaranteed conservation loans, and $10 million for direct loans for Highly Fractionated Indian Lands. For emergency disaster loans, the budget does not request an appropriation because disaster needs are unpredictable and some carryover funds are anticipated to be available. The budget also proposes $2.5 million for the beginning and limited resource individual development account (IDA) pilot program. The IDA pilot program was authorized in the 2008 Farm Bill to assist qualified applicants to purchase or make a down payment on farmland; purchase breeding stock, fruit or nut trees, and trees for timber harvest; and other similar purchases. If funded by Congress, the IDA pilot program will be operated through a Notice of Funding Availability.

Commodity Credit Corporation

The farm commodity price and income support programs are financed through the Commodity Credit Corporation (CCC), a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the Conservation Reserve Program (CRP) and certain programs administered by the Natural Resources Conservation Service. CCC also funds some export promotion and foreign food aid activities administered by the Foreign Agricultural Service.

CCC outlays have declined from the record high of $32.3 billion in 2000 to $10.0 billion in 2010. Under provisions of current law, estimated outlays would be $11.1 billion in 2011 and $8.4 billion in 2012. The reductions since 2000 primarily are due to reduced commodity program outlays. These result from relatively high market prices for most major commodities, as well as other factors such as the shift of disaster assistance programs to a separate fund and the elimination of some other earlier emergency economic assistance programs. The reduction in

2012 also reflects 2008 Farm Bill changes which eliminated the option for producers to receive advance direct payments. This change shifts some direct payments into 2013 that would have been paid in 2012.

Conservation Programs

The CRP, in dollar terms, is USDA's largest conservation/environmental program. For over 20 years, it has cost-effectively assisted farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive farmland to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments, as well as cost-share assistance and technical assistance to install approved conservation practices.

The 2008 Farm Bill reauthorized the CRP through September 30, 2012, and made a number of changes in program provisions, including reducing the enrollment cap from 39 million acres to 32 million acres beginning October 1, 2009. As of January 31, 2011, total CRP enrollment stood at 31.2 million acres under 745,000 contracts on 140,000 farms; of which 4.9 million acres are enrolled under 408,000 contracts for continuous signup practices. In 2010, FSA held the first general signup since 2006, enrolling 4.3 million acres. FSA anticipates enrollment to be about 31.8 million acres at year end. For 2012, the budget projects enrollment of about 31.9 million acres, just below the statutory cap of 32 million acres. Secretary Vilsack is committed to the conservation benefits of CRP, and FSA is currently midway through a general signup for the program which began on March 14.

During 2010, FSA implemented the Conservation Reserve Transition Incentives Program, which offers retiring landowners an added benefit to transition expiring CRP acres to a new or socially disadvantaged farmer – who in turn enters the land into production using sustainable growing practices. FSA has had unexpectedly high signup for the program, enrolling 372 producers last year. In addition, regulations for the Voluntary Public Access and Habitat Improvement Program (VPA-HIP) were published July 8, 2010. VPA-HIP is designed to encourage owners and operators of private farm, ranch, and forest land to make that land publicly accessible for hunting, fishing, or other wildlife-related recreation under programs administered by the State or Tribal governments.

Biomass Crop Assistance Program

In June 2009, FSA issued a Notice of Funds Availability for matching payments for the collection, harvest, storage, and transportation of eligible biomass materials sold to qualified facilities under the Biomass Crop Assistance Program (BCAP). The first payment was issued in August 2009. On February 8, 2010, FSA published a proposed rule with a 60-day comment period to implement the second phase of BCAP, which includes establishment and annual payments. The final rule for BCAP was published on October 27, 2010.

The 2008 Farm Bill authorized "such sums as necessary" for the costs of BCAP. In June 2010, Congress enacted the 2010 Supplemental Disaster Relief and Summer Jobs Act which capped BCAP expenditures at $552 million for 2010 and $432 million for 2011. The 2012 budget proposes further limitations on the amount available for BCAP. Specifically, the budget proposes to limit funding for the matching payments portion of BCAP at $70 million. The proposal does not limit the amount of funding available for the establishment and annual payments portion of BCAP.

Risk Management Agency

The Federal crop insurance program represents the main risk-mitigation program available to our Nation's agricultural producers. It provides risk management tools that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2010, the crop insurance program provided about \$78 billion in protection on 256 million acres. Our current projection is that indemnity payments to producers on their 2010 crops will be about \$3.5 billion on a premium volume of over \$7.5 billion. Our current projection for 2012 shows the value of protection will rise considerably, largely due to commodity price increases. This projection is based on the Department's latest estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2012 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. For salaries and expenses of the Risk Management Agency (RMA), \$82 million in discretionary spending is proposed, an increase of \$2 million above the 2011 annualized continuing resolution amount. The request includes additional funding for maintenance of the RMA IT system. Staffing for RMA is projected to remain at the same level as 2010.

Standard Reinsurance Agreement

RMA works daily to validate the utility of current insurance products – making certain we have the best protection possible for all of America's farmers and ranchers. RMA works to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against fraud, waste, and abuse within the program. In RMA's role as a regulator, it must also ensure the continued integrity and actuarial soundness of the Federal crop insurance program. We are also aware that in today's economy, it is particularly important that the program be cost effective and give a fair value for the taxpayers' dollar.

That is why we are proud of the new Standard Reinsurance Agreement (SRA), the agreement between USDA and the 17 approved private insurance companies that deliver the program. The 2008 Farm Bill authorized renegotiation of the SRA, which we and the

Approved Insurance Providers (AIPs) diligently negotiated in good faith last year. The new SRA will achieve $6 billion in savings over the next 10 years, two-thirds of which will go toward paying down the Federal deficit. The remaining $2 billion that did not go toward deficit reduction was applied to support of high priority risk management and conservation programs.

The Department's $4 billion in budget savings is one of the first and most significant Federal agency achievements in reducing mandatory spending and thereby helping to lower the long-term Federal deficit. The President has laid out an aggressive plan for reducing the deficit, and we are pleased to take a leadership role in that effort.

Good Performance Refund

RMA has several improvements to its programs underway as a result of the savings from the SRA. For example, RMA has published a proposed rule for a Good Performance Refund (GPR) program that would return a portion of out-of-pocket premium costs to farmers and ranchers who have had favorable insurance history in the Federal crop insurance program. The refund program is intended to reward producers' good insurance performance and encourages them to continue participation in the program and use the best available management practices.

We anticipate that $75 million will be available for this program each year to benefit farmers and ranchers across rural America. According to the proposed rule, RMA expects that there would be qualifying producers in over two-thirds of the counties nationwide. RMA published the proposed rule in the Federal Register on January 6, 2011, and the comment period ended on January 21, 2011. RMA is carefully reviewing the comments that were provided.

Information Technology

The RMA IT modernization (ITM) project is a multi-year, phased-implementation reengineering initiative to support Combo and new insurance programs and products, increase actuarial capabilities, and provide efficient policy and financial processing for producers and AIPs. The first phase, which was brought on-line in April 2010, focused on actuarial processes, policy processing, premium calculations, and other functions needed to administer various 2011 crop year insurance offers and implement the new Combo policy that affects about 75 percent of the Federal Crop Insurance Corporation's $78 billion program. The next phases of the ITM program – corporate business reporting and financial accounting – are in development. ITM is already enhancing services and benefits to producers through improved actuarial ratings, policy processing, and program integrity.

Legislative Proposal

The 2012 President's budget for the Federal crop insurance program includes a legislative proposal to reduce the mandatory costs of the program. The proposal would reduce the imputed premium amount for catastrophic (CAT) coverage, resulting in an estimated savings of $1.8 billion over 10 years.

CAT coverage was authorized in the Crop Insurance Reform Act of 1994, and the first CAT policies went on sale for the 1995 crop year. Over the course of the past 15-plus years, the CAT premium has been calculated using the same rating methodology used to determine the premium for a buy-up policy having the same loss threshold. Over this time-frame, the loss ratio for CAT coverage has been consistently lower than the loss ratio of the similar buy-up policy. After 15 years, USDA has collected sufficient data to suggest that the risk profile of producers who purchase CAT coverage is significantly different than that of producers purchasing buy-up coverage. This legislative proposal recognizes the lower risk associated with the CAT coverage and provides for a reduction in the premium rate. This reduction is consistent with our statutory mandate to set premium rates in an actuarially sound manner.

Because the CAT premium is fully subsidized, changing the premium amount will not affect producers' costs for CAT coverage. However, the premium reduction will impact payments to AIPs.

Foreign Agricultural Service

Agricultural trade makes a critical contribution to the prosperity of local and regional economies across rural America through increased sales and higher commodity prices. USDA estimates that every $1 billion of agricultural exports generates $1.3 billion in economic activity and supports 8,400 American jobs throughout the economy. Therefore, the FFAS mission area, through the work of the Foreign Agricultural Service (FAS), has an important role to play in removing agricultural trade barriers, developing new markets, and enhancing the competitive position of U.S. agriculture in the world marketplace.

The forecast for U.S. agricultural exports was recently increased to a record $135.5 billion for fiscal year 2011, an increase of $26.8 billion over 2010. Associated with that, agricultural exports are expected to contribute a positive trade balance of $47.5 billion to the Nation's economy. While the projected increase is a positive development, we can improve on this performance. To do so, FAS is playing an active role in the Administration's National Export Initiative (NEI). This is a government-wide initiative to double U.S. exports over the next five years in order to bolster economic growth and expand employment opportunities. Among its components are the expansion of trade advocacy and promotion activities with a particular focus on assisting small- and medium-sized enterprises; improved access to export credit financing; the removal of trade barriers to expand export opportunities; and enhanced enforcement of international trade agreements.

As we work to open new and maintain existing markets overseas, we face many challenges and barriers that must be addressed. An important means for doing so is through monitoring foreign compliance with trade agreements and working to remove unwarranted trade barriers. In this regard, the Department has established a goal that by the end of 2011 we will reduce non-tariff trade barriers in five major export markets and increase U.S. agricultural exports by $2 billion per year in those markets.

The FFAS mission area also makes a significant contribution to the Department's strategic goal of enhancing global food security. Through foreign food assistance, technical assistance, training, and capacity building activities, we are working closely with other U.S. departments and agencies to address global food insecurity and contributing to the Administration's global food security initiative – Feed the Future. With our broad range of agricultural expertise, USDA is well positioned to encourage the adoption of new technologies and production practices that can help increase the availability of food and improve its marketing and distribution.

Salaries and Expenses

FAS is the lead agency for the Department's international activities and is in the forefront of our efforts to expand and preserve overseas markets and foster global food security. The agency carries out its activities through a network of 100 overseas offices serving 156 countries and its headquarters staff here in Washington. With its overseas presence, FAS is at the forefront in representing American agricultural interests throughout the world.

The 2012 budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and to create new market opportunities overseas. The budget provides a program level of $236 million, an increase of $49 million above the 2011 annualized continuing resolution amount. In particular, increased funding is provided to expand export promotion activities, maintain the agency's overseas presence at current levels, and improve information technology network support at its overseas offices.

The budget includes $20 million of discretionary funding for trade expansion and promotion activities as part of the NEI. With increased funding, FAS will further the NEI's objectives by bolstering its trade compliance monitoring and enforcement activities, expanding its exporter assistance and education efforts, supporting state organized trade missions, and enhancing its in-country market access and promotion activities.

The budget also provides an increase of $9.3 million for higher operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services provided at overseas posts. FAS has no administrative staff overseas and, therefore, relies on the Department of State and other agencies for those services.

It is important to note that the increases in FAS' overseas operating costs, including payments to the State Department for administrative services, result from a number of factors over which the agency has no control, including overseas wage and price increases and variability in the value of the dollar. These increases are, therefore, non-discretionary and must be met if FAS is to maintain its overseas presence at current levels and have the resources necessary to achieve its mission.

An increase of $4 million is also included for FAS to contract with the State Department for overseas IT network support and maintenance. This will allow FAS to take advantage of the secure information system structure that is operated and maintained by the State Department and will ensure that sensitive agency information is fully protected. Strong security for FAS IT systems is essential because of the sensitivity of the information the agency compiles and handles.

For the Cochran and Borlaug Fellowship Programs, the budget includes increased funding of $1.5 million. These programs provide training and collaborative research opportunities in the United States for foreign agricultural researchers, policy officials, and other agricultural specialists and thereby help to advance U.S. government food security and trade policy objectives.

Agricultural Reconstruction and Stabilization

The FAS budget includes funding of $14.6 million for the management and support of the Department's participation in reconstruction and stabilization activities, including Provincial Reconstruction Teams (PRTs) in Afghanistan and Iraq. Of this amount, $13 million is moved from Departmental Management where it has been funded previously. The funding is included in the FAS budget as the agency is now responsible for full management of the operational and policy components of USDA's reconstruction and stabilization activities. The overall level of funding for these activities is increased by $1.6 million to meet higher administrative costs and to support additional activities in fragile market economies, such as Haiti. Additional funding to support the costs of placing advisors in these countries and the activities they carry out will be provided by the Department of State and the Agency for International Development (USAID).

During 2010, FAS managed the deployment of more than 60 agricultural advisors to Afghanistan, most of them career employees from around the United States. These experts serve as advisors at the provincial and district levels, where they provide advice to local agricultural officials and farmers on technical issues related to production and marketing. Others serve as advisors to the Ministry of Agriculture, Irrigation, and Livestock, where they are helping to build the Ministry's capacity to manage programs and deliver services to farmers. Among other things, USDA is working with U.S. land grant universities to build an Afghan extension service.

International Food Assistance

The United States plays a leading role in global efforts to alleviate hunger and malnutrition and enhance world food security through international food assistance programs. USDA contributes to these efforts by carrying out a variety of food aid programs that support economic growth and development in developing countries.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget provides funding of $200.5 million, a reduction of $9 million below the 2011 annualized continuing resolution level. The requested amount is expected to assist as many as five million women and children during 2012. Nearly 28 million children throughout the world have now received benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The budget maintains funding for Food for Peace Title II grant food assistance at the 2011 annualized continuing resolution level of nearly $1.7 billion. Title II, which is administered by USAID, provides agricultural commodities as assistance to combat malnutrition, foster sustainable development, meet famine and other emergency requirements, and support the donation activities of the World Food Program.

In addition to those two programs, additional food assistance will be provided through the Food for Progress program that FAS also administers. The 2012 budget includes an estimated program level of $156 million for CCC-funded Food for Progress programming, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Export Promotion and Market Development Activities

FAS administers a variety of export promotion and market development programs that contribute to the NEI's export expansion goals and play an important role in our efforts to enhance rural prosperity through increased sales and higher commodity prices.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate sales to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2012, the budget includes a program level of $5.5 billion for the CCC export credit guarantee programs.

For the foreign market development programs, which are funded through CCC, the budget includes an overall program level of $256 million. This level is consistent with provisions of the 2008 Farm Bill.

The budget assumes no bonus awards will be made under the Dairy Export Incentive Program (DEIP) during 2012 and, therefore, no funding is provided in the CCC budget baseline. U.S. dairy products have been competitive in overseas markets recently due to favorable market conditions and, as a result, no DEIP bonuses are being awarded at present. This situation is expected to continue unchanged throughout 2011 and 2012. However, should market conditions change and conditions warrant, CCC funding could be made available to the program up to the maximum annual level authorized under U.S. commitments to the World Trade Organization.

Mr. Chairman, this concludes my statement. Thank you for the opportunity to present our 2012 budget and program proposals. We look forward to working with you as you review and consider our proposals and will be pleased to provide whatever assistance you may require. The Administrators and I would be pleased to answer any questions you and other Members of the Subcommittee may have.

Mrs. EMERSON [presiding]. Thank you very much.

Ms. DeLauro, did you have a statement that you wanted? Questions you wanted to start with? Go ahead and start with your questions.

Ms. DELAURO. Thank you very much. Good morning and welcome, Madam Chair, and I welcome all of you to the subcommittee. It is good to see you.

FOOD AID PROGRAMS

And what I want to do is to talk a little bit about the nutrition international food aid programs. The budget maintains funding for Food for Peace at the 2010 program level but trims the McGovern-Dole program from $209.5 million in 2010 to $205 million for 2012. However, the House continuing resolution proposal cut Food for Peace by $687 million and McGovern-Dole by $109 million. That is a 42 percent cut.

According to some estimates, the cuts would eliminate over 15 million people from the Food for Peace Program and an additional 2½ million food aid recipients would be dropped from McGovern-Dole. We are talking about almost 18 million people being dropped from the food aid programs.

And McGovern-Dole is about children and particularly about girls. The importance of these programs cannot be emphasized enough, in my view. The Food for Peace Program targets communities where there is persistent hunger; 30 percent or more children are undernourished. Reductions in the programs would severely limit our ability to provide assistance in response to conflicts, to drought, and to other disasters, and we know that this has serious national security implications. Reductions in McGovern-Dole will prevent many young girls from attending schools.

Given the proposed cuts, given the fact that world food prices are increasing dramatically again, can you outline what kind of impact this would have on world hunger and how would the cuts impact our national security efforts? And I might add that we are feeding some of the poorest and hungriest people in the world.

Mr. SCUSE. Thank you. I think that you yourself very eloquently outlined what would happen should these cuts be put in place. And I think you recognize the fact that over the years we have been able to serve about 28 million people through McGovern-Dole. Projections for this next year we would be able to feed, if we receive their funding, about 5 million children in the world. So it would be a dramatic impact on our programs should we see cuts of that nature.

The only thing that I can say——

Ms. DELAURO. Let me just ask you to be more specific about that because you are on the front lines. You know what is going out. Let's talk a little bit about that impact.

Mr. SCUSE. If I may, I think I would like to reiterate what Secretary of State Clinton said in a letter to the House Appropriations Committee just a couple of months ago, that cuts to foreign operations in humanitarian assistance accounts would be devastating to our national security and damage our leadership around the world, that coupled with the fact that there would be many people around the world that we wouldn't have the ability to provide assistance for.

As you and members of the panel know, today for the first time, there are approximately a billion people today that are hungry, that are in need of some sort of food assistance.

So today, I think our programs are more important than ever before. And unfortunately, that number probably will grow. So we need to be able to provide all the assistance that we possibly can.

Ms. DELAURO. Well, I hope you will work with us to speak out against what this 42 percent cut will mean to 18 million people. And quite frankly, it is probably the bulk of the people are women and children.

Mrs. EMERSON. Will you yield to me for just a second?

Ms. DELAURO. Absolutely.

GLOBAL HUNGER

Mrs. EMERSON. I am very concerned about this issue myself. And I wonder, has USDA actually put together any numbers on connections between hunger and the growth in radical organizations around the world? In other words, I mean can you actually quantify, are you able to quantify?

Mr. SCUSE. I have not seen any work that we have done in USDA that would actually quantify that. But there are those that believe that there is a direct correlation between those areas of the world where there is extreme hunger and the potential for terrorist activities.

Mrs. EMERSON. So given the fact that you stated just a moment ago that we will see a rising need for more food because of prices and perhaps some other external challenges going on, how can your Department respond, if necessary, given the state of the budget requests?

Mr. SCUSE. I mean, we are looking at using all of the tools that we have available to us to respond to the growing needs of those around the world where we are facing extreme shortages for food. And one of those areas, one of the things that we are doing in a government-wide program is our Feed the Future Program, where USDA has targeted five countries in two regions of the world to bring together our programs not just in the USDA but across government to help us look at how we are delivering assistance.

Can we do a better job of delivering food assistance? And if you don't mind I would like to turn to Administrator Brewer, who is Administrator for the Foreign Agricultural Service, for a bit more detail on food assistance.

Mrs. EMERSON. I am happy to do that and I will give you your time back since I stole it, but I wanted to continue the line of questioning.

Mr. SCUSE. It is a very important issue and we appreciate the opportunity.

Mr. BREWER. Yes, ma'am. I just wanted to add something to what the Secretary amplified, some of the things that the Under Secretary said.

Again, while we do not ourselves do projections on global hunger trends, we do follow it closely via the work of the Economic Research Service within USDA as well as our work with Food and Agriculture Organization—FAO—in Rome who follow these things. So through our work with them, we do get some idea and some updates on this. Again, we don't follow it, we don't produce those ourselves, but we do try and get that input and apply that as we use our food aid programs and as we look and try and target our countries and priorities. So we do get that input.

Mrs. EMERSON. Ms. DeLauro, you have probably time for another question.

NATIONAL SECURITY

Ms. DELAURO. I would just add this. I think the national security aspect that Congresswoman Emerson has talked about and which has to do with—I am back from Afghanistan where we are looking at how we are trying to stave off militarily the Taliban. And I think there is an adage here and I don't care where you are and where you go, if you can't feed yourself and you can't feed your kids and you have some organization, be it a terrorist or nonterrorist organization help you and assist you with that process of feeding your children, you are going to take advantage of it.

So I believe we can both tap into both the Department of Defense and the State Department that will confirm that there is a relationship between the hunger issue and the issue of security and accepting assistance from wherever you can get it. Clearly I think each one of us here if our kids were in jeopardy and we had the opportunity to get food for them, we would take it and do that.

So I think one has to consider both of these pieces. It is just not—to feel good, you know, if you can't do this on the humanitarian side of it and look at that aspect of it with 18 million people who would be—and I have a problem with your cutting back on McGovern-Dole right out. But dealing with 18 million people, most of whom are women and children, is a problem. But then take a look at it from a national security emphasis.

And I thank the gentlewoman for her comments. I will come back in a second round with other questions.

Mrs. EMERSON. Thank you, Ms. DeLauro.

Mr. Graves.

Mr. GRAVES. Thank you, Madam Chair.

Mr. Under Secretary, I appreciate you being here. Thank you for your presentation.

FUNDING LEVELS

Could you help us a little bit with understanding the relationship with the requests for this year in comparison to 2010, 2008? We have been looking from an office perspective and haven't been able to find that difference. So what is the total request for 2012 and then maybe what was it in 2010 and 2008 and what are the variances there?

Mr. YOUNG. Bear with us one minute.

Mr. GRAVES. Sure.

Mr. YOUNG. Okay. Sir, what I have here available is the enacted level for 2008. That is about $3.1 billion for this entire mission area. For 2010, that number is $3.9 billion and for the 2012 budget it is $4.0 billion.

Mr. GRAVES. Okay. That is great. Thank you for sharing that with me.

FUNDING REDUCTIONS

And the reason I ask I think everyone knows the situation we are in as a nation fiscally and this committee has been working extremely hard, as I am sure you have as well, to find out where we can operate more efficiently and effectively as a government.

And part of our objective and ultimate goal is to try to move back to those 2008 levels, and that looks like that would be a considerable reduction as well for you but probably falls in line with sort of my questioning. And that is as each agency has come before us I ask them all if they would help us, if they would work with us and if they would be willing to look to see how they can operate and accomplish the core mission but with reduced resources in the amounts of 10 percent and 20 and 25 percent to allow the subcommittee an opportunity to work with you in a partnership at how you can accomplish your missions. But we cannot make those decisions for you. And most have been very willing and cooperative and already communicating back on with our office.

So I guess the question for you is would you be willing to do that to help us a little bit and provide some options as to how you could accomplish your goals and missions at a reduction of 10, 20, and 25 percent budgets.

Mr. SCUSE. Thank you for the question, Congressman. A little bit about my background. I was Secretary of Agriculture for the State of Delaware and, as you recognize, the states have been reducing budgets for a number of years. So I have been part of the process to reduce budgets and reduce spending.

This administration, I think you all are aware, supports cutting spending and doing it in a measured way, making reductions over a period of time so that we will have the ability and our stakeholders will have the ability to absorb those cuts. So the answer to your question is yes. I mean, we are looking for ways to reduce the spending, but do it in a way that we can all live with it.

We also believe that the sacrifice needs to be shared by all. And if I may at this time point out that our mission area at USDA, FFAS, through the Risk Management Agency, has already provided $4 billion in deficit reduction with the renegotiation of the Standard Reinsurance Agreement—SRA. So we have stepped up to the plate, Congressman.

Mr. GRAVES. So did I understand you to say yes, you would help us and provide us with alternatives in how you could reach those three goals for us as a subcommittee? Doesn't mean we will lock you into any of those, but it gives us a working document with which to work from.

Mr. SCUSE. We will look at ways to work with Congress to reduce our budget.

Mr. GRAVES. Particularly this subcommittee, I hope.

And just to follow up, you are right about it is being shared by all because this question is being asked to all. And we would hope that all would work with us on this because I can assure you that if those choose not to, we will have to do it ourselves and we would rather be a working partner with you. And as I have done with each, I have a letter to submit for the record here, of which I have asked this request to the chair. If that is okay, Madam Chair.

Mrs. EMERSON. Without objection.

[The information follows:]

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES:
AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION AND RELATED AGENCIES
COMMERCE, JUSTICE, SCIENCE AND RELATED AGENCIES
FINANCIAL SERVICES AND GENERAL GOVERNMENT

TOM GRAVES
9TH DISTRICT, GEORGIA
Congress of the United States
House of Representatives

WASHINGTON OFFICE:
1113 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-1009
(202) 225-5211

DISTRICT OFFICES:
311 GREEN STREET NW, SUITE 302
GAINESVILLE, GA 30501
(770) 535-2592

702 S. THORNTON AVENUE
DALTON, GA 30720
(706) 226-5320

http://tomgraves.house.gov

March 30, 2011

The Honorable Michael Scuse
Acting Under Secretary, Farm and Foreign Agricultural Services
United States Department of Agriculture
Farm Service Agency
1400 Independence Ave., S.W.
Washington, DC 20250-0506

Dear Acting Under Secretary Scuse:

I am writing today to request that your agency submit budgets to the Sub-Committee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies within the Committee on Appropriations that represent in detail how your agency would operate with a 25 percent reduction in funds, a 20 percent reduction in funds and a 10 percent reduction in funds.

As you know, as of this writing, we are months away from reaching our debt ceiling of $14.29 trillion. The Congressional Budget Office (CBO) projects that the gross federal debt will increase every year of the 2011-2020 period, reaching $23.1 trillion in 2020 and costing Americans over $1 trillion in interest payments alone by 2020.

According to CBO, at the end of the fiscal year of 2008, the debt held by the public was $5.8 trillion. Since then the public debt has shot to $9 trillion by the end of fiscal year 2010. While the government experienced lower tax revenues due to the economic recession, the response by the Administration and Congress to jolt the economy with higher federal spending coupled with the past imbalance between spending and revenues has led to an unsustainable debt.

Our fiscal situation is unacceptable. The responsibility for our debt is shared jointly by Democrat and Republican Administrations and Congresses of the past and finding solutions must be a bipartisan endeavor. That is why I am writing to you today to ask that your agency work with Republicans to begin reigning in spending and start our nation on a fiscally responsible course.

Thank you in advance for your willingness to work with the Sub-Committee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies on this important issue.

Sincerely,

Tom

Tom Graves
Member of Congress

PRINTED ON RECYCLED PAPER

Mr. GRAVES. Thank you, Mr. Under Secretary.

Mrs. EMERSON. Mr. Farr.

Mr. FARR. Yes. I just for the new members of this committee one of the things you might want to use in this back shelf is the explanatory notes that goes into all the details of each Department and what the expenditures are line by line. It is a very, very good background for looking at the intricacies of a hundred billion dollar agency.

AGRICULTURE PAYMENTS BY STATE

Thank you very much for your presence here. I read your testimony and you start out by thanking us for the $117 million that was spent on IT last year. Can you break out with that all of that new IT what essentially the domestic and foreign, the two sort of arms of your agency, how that trickles down to the products, to the ag crops that are grown in each of our congressional districts?

Mr. SCUSE. A breakdown per cost per congressional district?

Mr. FARR. How much aid comes in by—because in all due respect to all of the price and income support and the farm credit assistance, it doesn't go to everybody.

Mr. SCUSE. We can provide you with a breakdown for dollars per your district, but overall, if you look at our IT costs, especially for the——

Mr. FARR. The point is there is a lot of discussion in your testimony about how good this new IT is and how you are working on getting everybody trained and essentially implementing it all for greater credibility, a lot of discussion about implementing configuration changes but very little on what the products are that you could produce that you couldn't produce before.

One of the difficulties—you have been a State ag commissioner. California is still the leading ag State. We produce over 400 crops. Most States don't even come close to that. I produce 85 in my one county. $4 billion. We don't get much help at all. In fact, I can't tell the farmers you know what does USDA do for us in this county with $4 billion in agriculture, because it is specialty crops, not commodity crops.

And I think there is a lack of understanding of exactly how you help on the ground. And coming from a State in all of those different counties that you had to manage, I am very interested in how the breakdown—Washington is very bad at being able to tell Members of Congress what we do for you. Government is here to help. Well, then tell us what you are doing.

Mr. SCUSE. Congressman, we will be more than glad to provide you a breakdown.

[The information follows:]

Because of the nature of IT investments, we are not able to provide you with a state by state breakdown of the benefit that these dollars convey. We can, however, provide you with a state by state programmatic breakdown of the payments that we are able to make as a result of those IT investments. The table follows. It represents outlays made during FY 2010, which are not necessarily the same as obligations made during FY 2010.

State and Program	Sum of Total Payable Amount
ALABAMA	**169,618,905**
BIOMASS CROP ASSIST PROGRAM	25,106,640
CONSERVATION RESERVE	20,581,584
DAIRY LOSS ASSISTANCE	500,217
DIRECT AND COUNTER CYCLICALPYM	89,122,779
DISASTER PROGRAM	1,096
DISASTER TRUST FUND	12,498,453
EMERG FORESTRY CONSERV RESV	1,177,995
EMERGENCY CONSERVATION	3,042,964
FARM STORED FACILITY LOAN PRGM	1,633,214
MILK INCOME LOSS CONTRACT	284,310
NONINSURED ASSISTANCE PROGRAM	1,464,734
OTHER AGENCY CONSERATION PROG.	217,883
PRICE SUPPORT	13,499,128
TOBACCO TRUST FUND CCC REIMB	487,908
ALASKA	**1,288,613**
CONSERVATION RESERVE	1,016,017
DAIRY LOSS ASSISTANCE	19,064
DIRECT AND COUNTER CYCLICALPYM	96,338
DISASTER TRUST FUND	109,116
MILK INCOME LOSS CONTRACT	16,390
OTHER AGENCY CONSERATION PROG.	31,688
ARIZONA	**95,748,620**
BIOMASS CROP ASSIST PROGRAM	296,575
DAIRY LOSS ASSISTANCE	1,670,358
DIRECT AND COUNTER CYCLICALPYM	79,321,537
DISASTER TRUST FUND	4,573,163
EMERGENCY CONSERVATION	9,866
MILK INCOME LOSS CONTRACT	1,228,317
NONINSURED ASSISTANCE PROGRAM	831,958
OTHER AGENCY CONSERATION PROG.	90,595
PRICE SUPPORT	7,726,251
ARKANSAS	**791,580,407**
BIOMASS CROP ASSIST PROGRAM	4,586,042
CONSERVATION RESERVE	16,121,799
CROP DISASTER ASSISTANCE PRGRM	264,243
DAIRY LOSS ASSISTANCE	555,716
DIRECT AND COUNTER CYCLICALPYM	357,925,359
DISASTER TRUST FUND	4,780,784
EMERGENCY CONSERVATION	10,217,420
FARM STORED FACILITY LOAN PRGM	4,839,346
LIVESTOCK COMPENSATION PGM	5,592
LIVESTOCK INDEMNITY PROGRAM	656,742
MILK INCOME LOSS CONTRACT	324,887
MILK INDEMNITY PROGRAM	11,004
NONINSURED ASSISTANCE PROGRAM	1,500,300
OTHER AGENCY CONSERATION PROG.	130,624
PRICE SUPPORT	389,660,549
CALIFORNIA	**549,379,334**
BIOMASS CROP ASSIST PROGRAM	29,726,245
CONSERVATION RESERVE	4,695,813
CROP DISASTER ASSISTANCE PRGRM	16
DAIRY LOSS ASSISTANCE	30,416,765

State and Program	Sum of Total Payable Amount
DIRECT AND COUNTER CYCLICALPYM	241,952,118
DISASTER TRUST FUND	46,648,675
EMERGENCY CONSERVATION	364,393
LAMB MEAT ADJ ASSISTANCE PRGM	-428
MILK INCOME LOSS CONTRACT	21,623,257
NONINSURED ASSISTANCE PROGRAM	16,101,569
OTHER AGENCY CONSERATION PROG.	271,067
PRICE SUPPORT	157,580,433
TRADE ADJUSTMENT ASSISTANCE	-589
COLORADO	**372,871,507**
BIOMASS CROP ASSIST PROGRAM	549,223
CONSERVATION RESERVE	77,645,526
DAIRY LOSS ASSISTANCE	1,952,167
DIRECT AND COUNTER CYCLICALPYM	84,520,358
DISASTER TRUST FUND	58,471,059
EMERGENCY CONSERVATION	75,091
FARM STORED FACILITY LOAN PRGM	1,126,439
MILK INCOME LOSS CONTRACT	1,409,433
NONINSURED ASSISTANCE PROGRAM	1,408,282
OTHER AGENCY CONSERATION PROG.	1,074,259
PRICE SUPPORT	144,639,669
CONNECTICUT	**5,222,598**
BIOMASS CROP ASSIST PROGRAM	72,225
CONSERVATION RESERVE	16,738
DAIRY LOSS ASSISTANCE	855,337
DIRECT AND COUNTER CYCLICALPYM	628,166
DISASTER TRUST FUND	2,089,134
EMERGENCY CONSERVATION	27,127
MILK INCOME LOSS CONTRACT	696,746
NONINSURED ASSISTANCE PROGRAM	792,802
OTHER AGENCY CONSERATION PROG.	43,695
PRICE SUPPORT	628
DELAWARE	**12,212,866**
CONSERVATION RESERVE	811,306
DAIRY LOSS ASSISTANCE	250,530
DIRECT AND COUNTER CYCLICALPYM	5,513,682
DISASTER TRUST FUND	3,516,399
FARM STORED FACILITY LOAN PRGM	141,184
MILK INCOME LOSS CONTRACT	176,219
NONINSURED ASSISTANCE PROGRAM	70,121
OTHER AGENCY CONSERATION PROG.	1,866
PRICE SUPPORT	1,731,558
FLORIDA	**217,478,480**
BIOMASS CROP ASSIST PROGRAM	12,971,154
CONSERVATION RESERVE	2,553,986
CROP DISASTER ASSISTANCE PRGRM	95,562
DAIRY LOSS ASSISTANCE	1,760,505
DIRECT AND COUNTER CYCLICALPYM	18,853,163
DISASTER PROGRAM	11,580
DISASTER TRUST FUND	19,986,203
EMERG FORESTRY CONSERV RESV	181,833
EMERGENCY CONSERVATION	452,768
FARM STORED FACILITY LOAN PRGM	451,564

State and Program	Sum of Total Payable Amount
MILK INCOME LOSS CONTRACT	1,106,942
MILK INDEMNITY PROGRAM	4,164
NONINSURED ASSISTANCE PROGRAM	13,872,167
OTHER AGENCY CONSERATION PROG.	140,420
PRICE SUPPORT	137,967,911
TOBACCO TRUST FUND CCC REIMB	7,068,556
GEORGIA	**820,947,292**
BIOMASS CROP ASSIST PROGRAM	23,384,379
CONSERVATION RESERVE	20,636,017
CROP DISASTER ASSISTANCE PRGRM	29,483
DAIRY LOSS ASSISTANCE	2,413,989
DIRECT AND COUNTER CYCLICALPYM	204,190,250
DISASTER TRUST FUND	22,076,846
EMERGENCY CONSERVATION	4,609,863
FARM STORED FACILITY LOAN PRGM	825,184
MILK INCOME LOSS CONTRACT	1,657,356
MILK INDEMNITY PROGRAM	24,934
NONINSURED ASSISTANCE PROGRAM	2,524,518
OTHER AGENCY CONSERATION PROG.	202,289
PRICE SUPPORT	499,536,419
TOBACCO TRUST FUND CCC REIMB	38,835,766
GUAM	**6,110**
NONINSURED ASSISTANCE PROGRAM	6,110
HAWAII	**11,143,198**
CONSERVATION RESERVE	27,016
DAIRY LOSS ASSISTANCE	38,540
DISASTER TRUST FUND	9,455,622
EMERGENCY CONSERVATION	129,038
LAMB MEAT ADJ ASSISTANCE PRGM	-169
MILK INCOME LOSS CONTRACT	15,867
NONINSURED ASSISTANCE PROGRAM	1,194,218
OTHER AGENCY CONSERATION PROG.	283,066
IDAHO	**373,696,912**
BIOMASS CROP ASSIST PROGRAM	2,498,510
CONSERVATION RESERVE	32,807,501
CROP DISASTER ASSISTANCE PRGRM	6,330
DAIRY LOSS ASSISTANCE	6,537,237
DIRECT AND COUNTER CYCLICALPYM	61,204,938
DISASTER TRUST FUND	18,242,164
EMERGENCY CONSERVATION	70,976
FARM STORED FACILITY LOAN PRGM	1,705,017
LAMB MEAT ADJ ASSISTANCE PRGM	-225
MILK INCOME LOSS CONTRACT	4,581,399
NONINSURED ASSISTANCE PROGRAM	312,605
OTHER AGENCY CONSERATION PROG.	183,342
PRICE SUPPORT	245,547,118
ILLINOIS	**895,280,403**
CONSERVATION RESERVE	118,472,542
DAIRY LOSS ASSISTANCE	4,607,434
DIRECT AND COUNTER CYCLICALPYM	496,684,061
DISASTER TRUST FUND	25,468,209
EMERGENCY CONSERVATION	993,655
FARM STORED FACILITY LOAN PRGM	25,301,851

State and Program	Sum of Total Payable Amount
MILK INCOME LOSS CONTRACT	3,764,515
NONINSURED ASSISTANCE PROGRAM	87,747
OTHER AGENCY CONSERATION PROG.	38,292
PRICE SUPPORT	219,862,097
INDIANA	**615,848,832**
BIOMASS CROP ASSIST PROGRAM	145,170
CONSERVATION RESERVE	44,622,358
CROP DISASTER ASSISTANCE PRGRM	1,882
DAIRY LOSS ASSISTANCE	4,283,708
DIRECT AND COUNTER CYCLICALPYM	261,042,555
DISASTER TRUST FUND	50,663,880
EMERGENCY CONSERVATION	2,083,071
FARM STORED FACILITY LOAN PRGM	10,812,080
MILK INCOME LOSS CONTRACT	3,066,404
NONINSURED ASSISTANCE PROGRAM	396,219
OTHER AGENCY CONSERATION PROG.	196,136
PRICE SUPPORT	233,053,669
TOBACCO TRUST FUND CCC REIMB	5,477,314
WETLANDS RESERVE PROGRAM	4,386
IOWA	**1,602,499,999**
BIOMASS CROP ASSIST PROGRAM	21,021
CONSERVATION RESERVE	214,055,963
DAIRY LOSS ASSISTANCE	8,901,912
DIRECT AND COUNTER CYCLICALPYM	574,021,857
DISASTER TRUST FUND	241,571,038
EMER.CONS.PGM W/ADJ.GROSS INC	2,700
EMERGENCY CONSERVATION	4,393,449
FARM STORED FACILITY LOAN PRGM	41,169,081
MILK INCOME LOSS CONTRACT	6,471,265
NONINSURED ASSISTANCE PROGRAM	74,988
OTHER AGENCY CONSERATION PROG.	669,771
PRICE SUPPORT	511,146,954
KANSAS	**659,183,637**
BIOMASS CROP ASSIST PROGRAM	20,988
CONSERVATION RESERVE	124,333,543
CROP DISASTER ASSISTANCE PRGRM	64,157
DAIRY LOSS ASSISTANCE	2,084,874
DIRECT AND COUNTER CYCLICALPYM	380,703,297
DISASTER TRUST FUND	101,729,131
EMERGENCY CONSERVATION	78,569
FARM STORED FACILITY LOAN PRGM	4,550,432
MILK INCOME LOSS CONTRACT	1,421,978
NONINSURED ASSISTANCE PROGRAM	503,860
OTHER AGENCY CONSERATION PROG.	1,178,836
PRICE SUPPORT	42,486,675
TOBACCO TRUST FUND CCC REIMB	27,298
KCCO-DMD	**295,488,864**
ADVANCES FROM AMS	1,753,672
ADVANCES FROM FNS	954,975
TOBACCO TRUST FUND CCC REIMB	292,780,217
KENTUCKY	**347,112,520**
BIOMASS CROP ASSIST PROGRAM	1,045,834
CONSERVATION RESERVE	43,835,929

State and Program	Sum of Total Payable Amount
CROP DISASTER ASSISTANCE PRGRM	-3,598
DAIRY LOSS ASSISTANCE	3,157,307
DIRECT AND COUNTER CYCLICALPYM	56,549,016
DISASTER TRUST FUND	21,510,572
EMERGENCY CONSERVATION	20,055,054
FARM STORED FACILITY LOAN PRGM	4,073,800
MILK INCOME LOSS CONTRACT	1,960,266
NONINSURED ASSISTANCE PROGRAM	314,129
OTHER AGENCY CONSERATION PROG.	112,764
PRICE SUPPORT	38,898,653
TOBACCO TRUST FUND CCC REIMB	155,602,794
LOUISIANA	**506,460,132**
90 DAY RULE	372
BIOMASS CROP ASSIST PROGRAM	6,032,539
CONSERVATION RESERVE	20,344,531
DAIRY LOSS ASSISTANCE	860,504
DIRECT AND COUNTER CYCLICALPYM	199,807,030
DISASTER TRUST FUND	13,705,723
EMERG FORESTRY CONSERV RESV	395,237
EMERGENCY CONSERVATION	3,774,247
FARM STORED FACILITY LOAN PRGM	833,499
MILK INCOME LOSS CONTRACT	512,255
NONINSURED ASSISTANCE PROGRAM	65,947
OTHER AGENCY CONSERATION PROG.	98,037
PRICE SUPPORT	260,035,441
TRADE ADJUSTMENT ASSISTANCE	-5,230
MAINE	**43,126,398**
BIOMASS CROP ASSIST PROGRAM	37,684,861
CONSERVATION RESERVE	1,191,978
DAIRY LOSS ASSISTANCE	1,492,585
DIRECT AND COUNTER CYCLICALPYM	766,623
DISASTER TRUST FUND	219,639
EMERGENCY CONSERVATION	39,376
FARM STORED FACILITY LOAN PRGM	486,363
MILK INCOME LOSS CONTRACT	889,701
NONINSURED ASSISTANCE PROGRAM	62,698
OTHER AGENCY CONSERATION PROG.	46,924
PRICE SUPPORT	245,651
MARYLAND	**45,879,473**
BIOMASS CROP ASSIST PROGRAM	137,889
CONSERVATION RESERVE	11,383,496
DAIRY LOSS ASSISTANCE	2,289,210
DIRECT AND COUNTER CYCLICALPYM	16,926,965
DISASTER TRUST FUND	4,281,754
FARM STORED FACILITY LOAN PRGM	1,184,219
MILK INCOME LOSS CONTRACT	1,536,637
NONINSURED ASSISTANCE PROGRAM	19,305
OTHER AGENCY CONSERATION PROG.	27,089
PRICE SUPPORT	8,092,909
MASSACHUSETTS	**7,063,642**
BIOMASS CROP ASSIST PROGRAM	991,940
CONSERVATION RESERVE	1,876
DAIRY LOSS ASSISTANCE	733,386

State and Program	Sum of Total Payable Amount
DIRECT AND COUNTER CYCLICALPYM	374,749
DISASTER TRUST FUND	1,759,293
EMERGENCY CONSERVATION	1,216,460
FARM STORED FACILITY LOAN PRGM	160,000
MILK INCOME LOSS CONTRACT	578,001
NONINSURED ASSISTANCE PROGRAM	1,075,989
OTHER AGENCY CONSERATION PROG.	96,680
PRICE SUPPORT	75,268
MICHIGAN	**396,407,448**
BIOMASS CROP ASSIST PROGRAM	10,417,777
CONSERVATION RESERVE	21,972,372
CROP DISASTER ASSISTANCE PRGRM	203
DAIRY LOSS ASSISTANCE	12,726,858
DIRECT AND COUNTER CYCLICALPYM	96,222,045
DISASTER TRUST FUND	19,070,688
FARM STORED FACILITY LOAN PRGM	4,450,042
MILK INCOME LOSS CONTRACT	8,623,273
NONINSURED ASSISTANCE PROGRAM	1,886,631
OTHER AGENCY CONSERATION PROG.	693,039
PRICE SUPPORT	220,327,807
TREE ASSISTANCE PROGRAM	16,712
MINNESOTA	**1,173,180,184**
BIOMASS CROP ASSIST PROGRAM	4,300,330
CONSERVATION RESERVE	113,948,244
CROP DISASTER ASSISTANCE PRGRM	87,235
DAIRY LOSS ASSISTANCE	21,283,298
DIRECT AND COUNTER CYCLICALPYM	354,118,533
DISASTER TRUST FUND	67,953,592
EMERGENCY CONSERVATION	223,296
FARM STORED FACILITY LOAN PRGM	31,906,234
MILK INCOME LOSS CONTRACT	13,246,202
NONINSURED ASSISTANCE PROGRAM	492,528
OTHER AGENCY CONSERATION PROG.	250,144
PRICE SUPPORT	565,347,757
TOBACCO TRUST FUND CCC REIMB	22,791
MISSISSIPPI	**373,887,528**
BIOMASS CROP ASSIST PROGRAM	6,188,109
CONSERVATION RESERVE	41,636,065
DAIRY LOSS ASSISTANCE	721,347
DIRECT AND COUNTER CYCLICALPYM	245,397,080
DISASTER TRUST FUND	2,687,189
EMERG FORESTRY CONSERV RESV	5,832,406
EMERGENCY CONSERVATION	642,862
FARM STORED FACILITY LOAN PRGM	3,730,865
MILK INCOME LOSS CONTRACT	346,523
NONINSURED ASSISTANCE PROGRAM	4,488,639
OTHER AGENCY CONSERATION PROG.	61,716
PRICE SUPPORT	62,154,727
MISSOURI	**537,538,056**
BIOMASS CROP ASSIST PROGRAM	970,432
CONSERVATION RESERVE	103,722,298
DAIRY LOSS ASSISTANCE	4,145,657
DIRECT AND COUNTER CYCLICALPYM	231,032,051

State and Program	Sum of Total Payable Amount
DISASTER TRUST FUND	64,436,515
EMER.CONS.PGM W/ADJ.GROSS INC	1,694
EMERGENCY CONSERVATION	3,862,162
FARM STORED FACILITY LOAN PRGM	10,355,958
MILK INCOME LOSS CONTRACT	2,566,801
MILK INDEMNITY PROGRAM	1,093
NONINSURED ASSISTANCE PROGRAM	241,919
OTHER AGENCY CONSERATION PROG.	1,857,788
PRICE SUPPORT	112,187,535
TOBACCO TRUST FUND CCC REIMB	2,156,154
MONTANA	**363,404,332**
BIOMASS CROP ASSIST PROGRAM	1,490,649
CONSERVATION RESERVE	105,139,514
DAIRY LOSS ASSISTANCE	743,796
DIRECT AND COUNTER CYCLICALPYM	116,689,136
DISASTER TRUST FUND	48,733,634
EMERGENCY CONSERVATION	190,766
FARM STORED FACILITY LOAN PRGM	2,219,857
LAMB MEAT ADJ ASSISTANCE PRGM	-72
LIVESTOCK COMPENSATION PGM	3,878
MILK INCOME LOSS CONTRACT	590,840
NONINSURED ASSISTANCE PROGRAM	476,464
OTHER AGENCY CONSERATION PROG.	108,528
PRICE SUPPORT	87,017,341
NEBRASKA	**697,133,661**
BIOMASS CROP ASSIST PROGRAM	99,200
CONSERVATION RESERVE	72,694,284
CROP DISASTER ASSISTANCE PRGRM	23,593
DAIRY LOSS ASSISTANCE	1,705,404
DIRECT AND COUNTER CYCLICALPYM	374,129,540
DISASTER TRUST FUND	64,443,819
EMERGENCY CONSERVATION	1,337,794
FARM STORED FACILITY LOAN PRGM	17,487,850
MILK INCOME LOSS CONTRACT	1,251,273
NONINSURED ASSISTANCE PROGRAM	166,524
OTHER AGENCY CONSERATION PROG.	553,814
PRICE SUPPORT	163,240,566
NEVADA	**5,079,334**
BIOMASS CROP ASSIST PROGRAM	80,332
CONSERVATION RESERVE	2,448
DAIRY LOSS ASSISTANCE	419,197
DIRECT AND COUNTER CYCLICALPYM	689,450
DISASTER TRUST FUND	2,652,727
EMERGENCY CONSERVATION	75,256
MILK INCOME LOSS CONTRACT	223,172
NONINSURED ASSISTANCE PROGRAM	781,960
OTHER AGENCY CONSERATION PROG.	10,665
PRICE SUPPORT	144,127
NEW HAMPSHIRE	**13,602,787**
BIOMASS CROP ASSIST PROGRAM	11,822,402
CONSERVATION RESERVE	3,278
CROP DISASTER ASSISTANCE PRGRM	12,807
DAIRY LOSS ASSISTANCE	746,161

State and Program	Sum of Total Payable Amount
DIRECT AND COUNTER CYCLICALPYM	315,460
DISASTER TRUST FUND	80,132
EMERGENCY CONSERVATION	170,606
MILK INCOME LOSS CONTRACT	375,644
NONINSURED ASSISTANCE PROGRAM	74,108
PRICE SUPPORT	2,188
NEW JERSEY	**10,475,274**
CONSERVATION RESERVE	820,060
DAIRY LOSS ASSISTANCE	467,915
DIRECT AND COUNTER CYCLICALPYM	2,770,211
DISASTER TRUST FUND	3,981,233
FARM STORED FACILITY LOAN PRGM	260,392
MILK INCOME LOSS CONTRACT	258,445
NONINSURED ASSISTANCE PROGRAM	993,960
OTHER AGENCY CONSERATION PROG.	78,399
PRICE SUPPORT	771,196
TREE ASSISTANCE PROGRAM	73,464
NEW MEXICO	**85,701,994**
BIOMASS CROP ASSIST PROGRAM	155,808
CONSERVATION RESERVE	18,707,757
CROP DISASTER ASSISTANCE PRGRM	890
DAIRY LOSS ASSISTANCE	3,041,275
DIRECT AND COUNTER CYCLICALPYM	25,032,905
DISASTER TRUST FUND	20,299,634
EMERGENCY CONSERVATION	401,750
MILK INCOME LOSS CONTRACT	2,746,046
NONINSURED ASSISTANCE PROGRAM	8,316,249
OTHER AGENCY CONSERATION PROG.	132,047
PRICE SUPPORT	6,867,634
NEW YORK	**121,552,462**
BIOMASS CROP ASSIST PROGRAM	7,770,027
CONSERVATION RESERVE	4,787,501
DAIRY LOSS ASSISTANCE	23,801,581
DAIRY PRODUCER LOSSES	-105
DIRECT AND COUNTER CYCLICALPYM	29,003,954
DISASTER TRUST FUND	1,950,518
EMERGENCY CONSERVATION	148,781
FARM STORED FACILITY LOAN PRGM	3,927,388
MILK INCOME LOSS CONTRACT	14,051,507
NONINSURED ASSISTANCE PROGRAM	1,731,429
OTHER AGENCY CONSERATION PROG.	62,825
PRICE SUPPORT	34,317,055
NORTH CAROLINA	**509,867,639**
BIOMASS CROP ASSIST PROGRAM	7,712,724
CONSERVATION RESERVE	9,357,131
CROP DISASTER ASSISTANCE PRGRM	3,199
DAIRY LOSS ASSISTANCE	2,004,440
DIRECT AND COUNTER CYCLICALPYM	128,062,031
DISASTER TRUST FUND	20,138,509
EMERGENCY CONSERVATION	125,083
FARM STORED FACILITY LOAN PRGM	2,237,813
MILK INCOME LOSS CONTRACT	1,125,859
NONINSURED ASSISTANCE PROGRAM	2,316,178

State and Program	Sum of Total Payable Amount
OTHER AGENCY CONSERATION PROG.	2,658
PRICE SUPPORT	45,810,497
TOBACCO TRUST FUND CCC REIMB	290,971,516
NORTH DAKOTA	**950,213,061**
BIOMASS CROP ASSIST PROGRAM	114,265
CONSERVATION RESERVE	102,447,636
CROP DISASTER ASSISTANCE PRGRM	28,665
DAIRY LOSS ASSISTANCE	855,849
DIRECT AND COUNTER CYCLICALPYM	251,223,002
DISASTER TRUST FUND	293,666,174
EMERGENCY CONSERVATION	1,135,228
FARM STORED FACILITY LOAN PRGM	6,596,892
MILK INCOME LOSS CONTRACT	673,775
NONINSURED ASSISTANCE PROGRAM	362,232
OTHER AGENCY CONSERATION PROG.	220,259
PRICE SUPPORT	292,889,082
OHIO	**510,352,001**
BIOMASS CROP ASSIST PROGRAM	800,074
CONSERVATION RESERVE	50,157,165
CROP DISASTER ASSISTANCE PRGRM	5,447
DAIRY LOSS ASSISTANCE	9,742,375
DIRECT AND COUNTER CYCLICALPYM	187,503,704
DISASTER TRUST FUND	102,848,622
EMERGENCY CONSERVATION	164,512
FARM STORED FACILITY LOAN PRGM	4,723,152
LAMB MEAT ADJ ASSISTANCE PRGM	-810
MILK INCOME LOSS CONTRACT	7,119,083
NONINSURED ASSISTANCE PROGRAM	3,166,493
OTHER AGENCY CONSERATION PROG.	183,882
PRICE SUPPORT	136,934,497
TOBACCO TRUST FUND CCC REIMB	7,003,805
OKLAHOMA	**238,748,859**
BIOMASS CROP ASSIST PROGRAM	861,109
CONSERVATION RESERVE	31,910,486
CROP DISASTER ASSISTANCE PRGRM	9,079
DAIRY LOSS ASSISTANCE	1,244,638
DIRECT AND COUNTER CYCLICALPYM	153,439,840
DISASTER TRUST FUND	28,880,131
EMERGENCY CONSERVATION	2,062,419
FARM STORED FACILITY LOAN PRGM	680,832
LIVESTOCK COMPENSATION PGM	215
LIVESTOCK INDEMNITY PROGRAM	27,346
MILK INCOME LOSS CONTRACT	751,830
MILK INDEMNITY PROGRAM	2,323
NONINSURED ASSISTANCE PROGRAM	8,274,031
OTHER AGENCY CONSERATION PROG.	534,628
PRICE SUPPORT	10,068,980
TOBACCO TRUST FUND CCC REIMB	971
OREGON	**109,013,342**
BIOMASS CROP ASSIST PROGRAM	6,193,137
CONSERVATION RESERVE	30,433,329
DAIRY LOSS ASSISTANCE	2,880,235
DIRECT AND COUNTER CYCLICALPYM	29,775,222

State and Program	Sum of Total Payable Amount
DISASTER TRUST FUND	29,895,531
EMERGENCY CONSERVATION	61,100
FARM STORED FACILITY LOAN PRGM	1,044,841
MILK INCOME LOSS CONTRACT	2,120,340
NONINSURED ASSISTANCE PROGRAM	516,117
OTHER AGENCY CONSERATION PROG.	246,968
PRICE SUPPORT	5,846,522
PENNSYLVANIA	**113,958,943**
BIOMASS CROP ASSIST PROGRAM	3,694,136
CONSERVATION RESERVE	25,887,161
DAIRY LOSS ASSISTANCE	22,223,482
DIRECT AND COUNTER CYCLICALPYM	23,968,648
DISASTER TRUST FUND	603,674
EMERGENCY CONSERVATION	63,732
FARM STORED FACILITY LOAN PRGM	2,739,401
LIVESTOCK COMPENSATION PGM	484
MILK INCOME LOSS CONTRACT	15,128,853
NONINSURED ASSISTANCE PROGRAM	190,583
OTHER AGENCY CONSERATION PROG.	1,369,902
PRICE SUPPORT	18,088,887
PUERTO RICO-NAT	**6,296,982**
CONSERVATION RESERVE	80,959
CROP DISASTER ASSISTANCE PRGRM	60,523
DAIRY LOSS ASSISTANCE	1,441,088
DISASTER TRUST FUND	684,484
MILK INCOME LOSS CONTRACT	3,023,294
NONINSURED ASSISTANCE PROGRAM	949,937
OTHER AGENCY CONSERATION PROG.	56,697
RHODE ISLAND	**522,231**
CONSERVATION RESERVE	2,288
DAIRY LOSS ASSISTANCE	51,021
DIRECT AND COUNTER CYCLICALPYM	15,558
DISASTER TRUST FUND	122,091
EMERGENCY CONSERVATION	59,112
MILK INCOME LOSS CONTRACT	29,465
NONINSURED ASSISTANCE PROGRAM	231,457
OTHER AGENCY CONSERATION PROG.	10,757
PRICE SUPPORT	481
SOUTH CAROLINA	**157,797,624**
BIOMASS CROP ASSIST PROGRAM	15,678,256
CONSERVATION RESERVE	7,664,467
DAIRY LOSS ASSISTANCE	766,096
DIRECT AND COUNTER CYCLICALPYM	51,128,645
DISASTER TRUST FUND	10,193,424
EMERGENCY CONSERVATION	15,900
FARM STORED FACILITY LOAN PRGM	1,592,310
MILK INCOME LOSS CONTRACT	473,206
NONINSURED ASSISTANCE PROGRAM	953,146
OTHER AGENCY CONSERATION PROG.	3,123
PRICE SUPPORT	14,846,322
TOBACCO TRUST FUND CCC REIMB	54,482,728

State and Program	Sum of Total Payable Amount
SOUTH DAKOTA	**507,948,730**
BIOMASS CROP ASSIST PROGRAM	49,179
CONSERVATION RESERVE	65,014,744
DAIRY LOSS ASSISTANCE	2,598,813
DIRECT AND COUNTER CYCLICALPYM	176,831,783
DISASTER TRUST FUND	99,561,512
EMERGENCY CONSERVATION	879,896
FARM STORED FACILITY LOAN PRGM	28,307,123
LAB FEES GRADING	210
MILK INCOME LOSS CONTRACT	1,784,700
NONINSURED ASSISTANCE PROGRAM	862,282
OTHER AGENCY CONSERATION PROG.	546,742
PRICE SUPPORT	131,511,746
TENNESSEE	**268,899,137**
BIOMASS CROP ASSIST PROGRAM	4,305,524
CONSERVATION RESERVE	15,035,737
DAIRY LOSS ASSISTANCE	2,718,789
DIRECT AND COUNTER CYCLICALPYM	93,757,883
DISASTER TRUST FUND	19,210,459
EMERGENCY CONSERVATION	2,191,277
FARM STORED FACILITY LOAN PRGM	526,530
MILK INCOME LOSS CONTRACT	1,826,662
NONINSURED ASSISTANCE PROGRAM	352,093
OTHER AGENCY CONSERATION PROG.	263,486
PRICE SUPPORT	85,196,889
TOBACCO TRUST FUND CCC REIMB	43,513,808
TEXAS	**1,387,673,779**
BIOMASS CROP ASSIST PROGRAM	8,609,230
CONSERVATION RESERVE	136,617,311
CROP DISASTER ASSISTANCE PRGRM	254,733
DAIRY LOSS ASSISTANCE	7,235,027
DIRECT AND COUNTER CYCLICALPYM	732,001,952
DISASTER TRUST FUND	290,835,103
EMERG FORESTRY CONSERV RESV	197,913
EMERGENCY CONSERVATION	6,935,342
FARM STORED FACILITY LOAN PRGM	739,542
LAMB MEAT ADJ ASSISTANCE PRGM	-900
MILK INCOME LOSS CONTRACT	4,566,899
MILK INDEMNITY PROGRAM	112,899
NONINSURED ASSISTANCE PROGRAM	19,411,337
OTHER AGENCY CONSERATION PROG.	73,270
PRICE SUPPORT	180,088,649
TRADE ADJUSTMENT ASSISTANCE	-4,528
UTAH	**24,896,736**
CONSERVATION RESERVE	5,791,737
DAIRY LOSS ASSISTANCE	2,410,308
DIRECT AND COUNTER CYCLICALPYM	6,274,498
DISASTER TRUST FUND	3,348,452
EMERGENCY CONSERVATION	468,274
FARM STORED FACILITY LOAN PRGM	84,788
MILK INCOME LOSS CONTRACT	1,676,810
NONINSURED ASSISTANCE PROGRAM	1,814,037

State and Program	Sum of Total Payable Amount
OTHER AGENCY CONSERATION PROG.	94,443
PRICE SUPPORT	2,933,390
VERMONT	**16,821,357**
BIOMASS CROP ASSIST PROGRAM	3,553,360
CONSERVATION RESERVE	852,165
CROP DISASTER ASSISTANCE PRGRM	2,127
DAIRY LOSS ASSISTANCE	5,833,912
DIRECT AND COUNTER CYCLICALPYM	1,748,579
DISASTER TRUST FUND	1,162,201
EMERGENCY CONSERVATION	41,287
FARM STORED FACILITY LOAN PRGM	49,680
MILK INCOME LOSS CONTRACT	3,389,388
NONINSURED ASSISTANCE PROGRAM	80,811
OTHER AGENCY CONSERATION PROG.	97,724
PRICE SUPPORT	10,124
VIRGIN ISLANDS	**1,771**
NONINSURED ASSISTANCE PROGRAM	1,151
OTHER AGENCY CONSERATION PROG.	620
VIRGINIA	**149,525,602**
BIOMASS CROP ASSIST PROGRAM	2,504,115
CONSERVATION RESERVE	6,975,545
CROP DISASTER ASSISTANCE PRGRM	362
DAIRY LOSS ASSISTANCE	4,045,127
DIRECT AND COUNTER CYCLICALPYM	31,344,059
DISASTER TRUST FUND	8,391,497
EMERGENCY CONSERVATION	101,671
FARM STORED FACILITY LOAN PRGM	783,593
MILK INCOME LOSS CONTRACT	2,405,233
NONINSURED ASSISTANCE PROGRAM	98,092
OTHER AGENCY CONSERATION PROG.	229,244
PRICE SUPPORT	42,009,381
TOBACCO TRUST FUND CCC REIMB	50,637,683
WASHINGTON	**242,093,614**
BIOMASS CROP ASSIST PROGRAM	7,361,143
CONSERVATION RESERVE	84,585,043
CROP DISASTER ASSISTANCE PRGRM	2,491
DAIRY LOSS ASSISTANCE	5,394,677
DIRECT AND COUNTER CYCLICALPYM	73,978,330
DISASTER TRUST FUND	49,669,349
EMERGENCY CONSERVATION	1,471,587
FARM STORED FACILITY LOAN PRGM	876,861
LIVESTOCK COMPENSATION PGM	4,679
MILK INCOME LOSS CONTRACT	3,527,736
NONINSURED ASSISTANCE PROGRAM	1,244,659
OTHER AGENCY CONSERATION PROG.	88,153
PRICE SUPPORT	13,888,906
WEST VIRGINIA	**9,236,285**
BIOMASS CROP ASSIST PROGRAM	1,161,286
CONSERVATION RESERVE	1,170,779
DAIRY LOSS ASSISTANCE	445,346
DIRECT AND COUNTER CYCLICALPYM	1,616,000
DISASTER TRUST FUND	836,544
FARM STORED FACILITY LOAN PRGM	176,218

State and Program	Sum of Total Payable Amount
MILK INCOME LOSS CONTRACT	290,590
NONINSURED ASSISTANCE PROGRAM	14,747
OTHER AGENCY CONSERATION PROG.	18,470
PRICE SUPPORT	2,033,002
TOBACCO TRUST FUND CCC REIMB	1,473,303
WISCONSIN	**403,099,824**
BIOMASS CROP ASSIST PROGRAM	3,612,127
CONSERVATION RESERVE	35,863,417
CROP DISASTER ASSISTANCE PRGRM	1,753
DAIRY LOSS ASSISTANCE	55,805,863
DIRECT AND COUNTER CYCLICALPYM	123,992,053
DISASTER TRUST FUND	65,334,145
EMERGENCY CONSERVATION	164,277
FARM STORED FACILITY LOAN PRGM	3,759,954
LIVESTOCK COMPENSATION PGM	633
MILK INCOME LOSS CONTRACT	34,688,291
NONINSURED ASSISTANCE PROGRAM	138,232
OTHER AGENCY CONSERATION PROG.	816,094
PRICE SUPPORT	74,376,485
TOBACCO TRUST FUND CCC REIMB	4,546,501
WYOMING	**31,813,671**
CONSERVATION RESERVE	8,010,681
DAIRY LOSS ASSISTANCE	123,874
DIRECT AND COUNTER CYCLICALPYM	7,368,764
DISASTER TRUST FUND	5,688,174
EMERGENCY CONSERVATION	61,841
FARM STORED FACILITY LOAN PRGM	39,007
MILK INCOME LOSS CONTRACT	71,815
NONINSURED ASSISTANCE PROGRAM	2,507,135
OTHER AGENCY CONSERATION PROG.	186,169
PRICE SUPPORT	7,756,211
Grand Total	**17,855,882,990**

Mr. FARR. I would like to know by crop and by congressional district; if not, at least by State and by crop.

FSA IT MODERNIZATION

Mr. SCUSE. Okay, and if I may address part of your question with IT. We are in the process of our modernization project, which is MIDAS. Our county offices are dealing with technology and equipment that dates back to the 1980s.

Mr. FARR. I am not questioning that. I am all for IT.

Mr. SCUSE. Okay. I must have misunderstood part of the question, Congressman.

Mr. FARR. No. You thanked us for the money and you are doing it. I am just wondering what can we get out of it. How is it going to be useful for this committee and for members of this committee to be able to go back home and explain to people what all of these programs are that are—the farm loan programs. The administration is thinking about putting out new regulations on homeowner mortgages and loans and things like that that require a 20 percent down payment. How much is required for your direct loans that the lender has to put in for your direct loans for farm families?

DIRECT FARM LOANS

Mr. SCUSE. Congressman, I don't believe that our lenders are required to put down anything for our direct loans. And I think you understand the importance of those loan programs to our producers.

Mr. FARR. Does the same size fit all, different States have different values of—I mean, you can't get into farming in California without a million bucks, but I don't think anybody would qualify for these loans.

Mr. SCUSE. And you are right. Our programs are targeted to the family farms, the smaller family farms. But in all the States——

Mr. FARR. We have small family farms; it is just that the real estate is so expensive.

Mr. SCUSE. But the real estate is so expensive in your State, and we understand that. But our programs are targeted towards those producers who are unable to obtain credit from commercial lending institutions.

Mr. FARR. Could we see what States, how that boils out by State breakdown?

Mr. SCUSE. Yes, sir. Not a problem.

Mr. FARR. I also want to do it for the other——

Mr. SCUSE. Administrator Dolcini.

Mr. DOLCINI. Most recently, I was the State Director in California of the Farm Service Agency there. And over the last couple of years and really prior to my tenure, we have done a really good job I think in our counties—and you have got two service centers in the 17th Congressional District—about reaching out to socially disadvantaged—SDA—farmers in California. And fully 40 percent of our loan portfolio in the State of California, which for the last fiscal year was around $120 million or so, went to SDA borrowers.

So the folks that work in the Salinas office and the Hollister office and other offices up and down the State and really many offices around the country have done a great job in reaching out to new customers.

Mr. FARR. That is great. I want to know about it. I am the Congressman who represents that district, and I still don't have that information. So how many loans and if it is public as to who is getting them, just give us the list.

Mr. DOLCINI. We will get that to you.

[The information follows:]

FARM SERVICE AGENCY
FARM LOAN PROGRAMS OBLIGATIONS REPORT
(dollars in thousands)

State	FY 2009 Total No. All Loans	FY 2009 Total $ Amt. All Loans	FY 2010 Total No. All Loans	FY 2010 Total $ Amt. All Loans	FY 2011 as of 3-31-11 Total No. All Loans	FY 2011 as of 3-31-11 Total $ Amt. All Loans
ALABAMA	$354	$43,479	$364	$46,494	$184	$27,385
ALASKA	15	741	17	1,045	4	385
ARIZONA	242	23,769	228	47,772	146	21,621
ARKANSAS	842	151,830	903	178,971	540	127,158
CALIFORNIA	676	94,036	714	117,631	345	56,074
COLORADO	335	47,839	467	77,828	231	36,561
CONNECTICUT	44	9,896	49	9,163	29	3,962
DELAWARE	7	1,002	16	2,899	7	744
FLORIDA	240	25,106	291	38,880	154	17,811
Virgin Isl.	2	34	2	33	2	55
GEORGIA	721	127,493	829	140,863	405	82,483
HAWAII	104	7,205	121	6,149	56	2,817
Wst. Pac. Terr	18	122	3	7	0	0
IDAHO	572	75,276	788	109,893	387	48,644
ILLINOIS	887	156,185	1,043	205,031	465	116,085
INDIANA	510	104,973	594	115,773	331	80,397
IOWA	2,359	285,852	2,396	328,491	1,064	146,164
KANSAS	1,288	147,685	1,288	162,049	608	61,003
KENTUCKY	1,607	119,698	1,646	124,710	752	56,504
LOUISIANA	634	120,384	614	104,534	326	72,471
MAINE	166	15,387	167	17,155	37	1,593
MARYLAND	65	9,893	47	6,914	16	3,194
MASSACHUSETTS	103	12,738	147	15,909	53	4,340
MICHIGAN	991	135,567	1,073	165,438	385	58,356
MINNESOTA	1,760	265,414	1,958	328,206	801	121,853
MISSISSIPPI	470	38,915	462	55,034	212	23,799
MISSOURI	1,015	126,028	1,198	161,580	626	78,441
MONTANA	402	68,763	503	73,079	256	39,906
NEBRASKA	2,051	247,535	1,987	246,493	1,076	118,324
NEVADA	67	8,062	92	18,635	44	5,359
NEW HAMPSHIRE	60	4,259	53	5,935	20	1,864
NEW JERSEY	86	13,000	104	17,053	57	6,547
NEW MEXICO	196	34,063	167	24,246	72	10,743
NEW YORK	754	110,760	697	121,626	173	24,927
NORTH CAROLINA	599	93,267	600	96,848	386	74,485
NORTH DAKOTA	804	105,340	931	148,838	326	51,895
OHIO	1,169	178,714	1,312	230,282	633	119,248
OKLAHOMA	1,350	135,259	1,548	189,290	661	70,559
OREGON	489	63,601	492	81,890	250	30,102
PENNSYLVANIA	1,138	134,500	1,042	131,871	313	27,555
PUERTO RICO	140	9,626	124	8,028	75	5,453
RHODE ISLAND	18	1,567	32	3,906	12	440
SOUTH CAROLINA	518	65,760	480	70,819	301	37,487
SOUTH DAKOTA	1,386	149,709	1,385	160,424	765	84,765
TENNESSEE	613	67,360	665	69,804	325	44,126
TEXAS	1,786	216,675	1,883	236,089	775	108,532
UTAH	595	51,673	627	60,039	319	22,732
VERMONT	312	42,072	301	49,502	64	8,914
VIRGINIA	394	49,044	380	56,390	221	31,691
WASHINGTON	547	87,187	616	102,447	349	58,254
WEST VIRGINIA	394	16,843	372	18,328	136	5,196
WISCONSIN	2,198	357,213	2,442	457,379	947	180,786
WYOMING	117	15,963	180	30,820	91	17,610
NATIONAL TOTAL	34,210	4,474,362	36,440	5,278,513	16,813	2,437,400

Mr. FARR. It would be nice to be able to brag about it.
Mrs. EMERSON. Mrs. Lummis.

FSA COUNTY OFFICES

Mrs. LUMMIS. First some questions about FSA.

In Wyoming, there are only 17 FSA offices, and in States like Kansas, they are like Starbucks. There is one on every corner. So my question is, is there flexibility, if there are budget reductions, to close FSA offices in States that have FSA offices like Starbucks without affecting the States like mine where ranchers and farmers have to drive 100 miles to the FSA office?

Mr. SCUSE. I understand what the appearance is, but it is also you deal with the number. It also has something to do with volume. And if you look at some of the areas where we have the higher concentrations of county offices, you are dealing with very large numbers of producers. And in your State you have few producers who control huge tracts. So that is part of the response.

But our budget request does not include office closures for the 2012 budget year.

COUNTY OFFICE LEASES AND PROCUREMENT

Mrs. LUMMIS. Thanks. I met with some FSA employees a couple weeks ago, and they told me that they had lost the flexibility to renew county leases and that they can't buy supplies from local non-listed vendors. They have to buy supplies from certified vendors. And across Wyoming, there are a lot of small communities that don't have certified vendors.

And can't we provide local FSA offices the flexibility to renew their own leases and purchase goods from local vendors of their choice? Is there a cost savings to this?

Mr. SCUSE. Thank you for bringing the first issue up anyway about the office leasing.

My understanding is that issue was addressed in the 2008 Farm Bill—the 2002 Farm Bill—I had my years mixed up—where the authority was given through the leasing to GSA and taken from the Farm Service Agency to do those leases. So that authority was taken away from the Farm Service Agency and given to GSA.

As far as the other issue with us, with our procurement of supplies, I can't answer that question, but I assure you that we will look into it and see what that issue is.

[The information follows:]

All Federal Agencies, which would include FSA County Offices, are required to follow the Federal Acquisition Requirements (FAR) and its updates. In accordance with Agriculture Acquisition Regulations (AGAR) Advisory 97, the process for purchasing of goods and supplies is as follows:

Through the Federal Strategic Sourcing Initiative (FSSI), the U.S. General Services Administration (GSA) has awarded 15 Blanket Purchase Agreements (BPAs) for office supplies. Thirteen of these BPAs were awarded to small business entities. Patronization of these BPAs represents a great opportunity for our agencies to achieve significant savings. By leveraging the buying power of the federal marketplace, the GSA Federal Strategic Sourcing Initiative has obtained discounted pricing on all office supplies, including paper and toner. Under these BPAs, discounts increase as the agencies procure more items. Beginning January 3, 2011, all Department of Agriculture office supply purchases must be made through the GSA Office Supply FSSI BPAs or USDA's AbilityOne Supply Store, Paperclips Etc.

These new BPAs are easy to use, provide additional discounts to the negotiated prices already available on GSA's Schedule 75 for office supplies, and provide the federal government with a fast and effective way to order, while ensuring prompt, cost-effective delivery and quality customer service. Additional benefits include:

- ensuring compliance with applicable regulations, including the AbilityOne Program;
- fostering new markets for sustainable technologies and environmentally preferable products; and
- simplifying data collection and enhancing transparency by enabling agencies to better manage spending and cost savings for office supplies.

For those purchases where the use of the BPA is not practical or emergency needs exist, the purchase card may be used within the limitation of the purchase card holder's purchasing authority.

FARM LOAN PROGRAMS

Mrs. LUMMIS. Thank you. As you guys know, there is rural and then there is rural. And in Wyoming we are really rural. A question about duplication of programs. This has to do with your loan program.

Mr. Farr asked whether there was a down payment required for FSA loans. The answer was you don't think so.

Mr. SCUSE. We don't believe so.

Mrs. LUMMIS. What is the subsidy rate for the U.S. taxpayers on these farm credit programs? What is the interest rate, for example?

Mr. SCUSE. The interest rates for our programs vary from direct farm ownership loans, 4.5 percent, joint financing would be 5 percent, and other farm ownership loans, emergency loans would be 4.5 percent.

Mrs. LUMMIS. The GSA, Farm Credit Services, doesn't this duplicate what Farm Credit Services does, these USDA loan programs?

Mr. SCUSE. No.

Mrs. LUMMIS. Tell me the difference.

Mr. SCUSE. We are lending money to borrowers who don't have the ability to obtain commercial credit.

Mrs. LUMMIS. Okay.

Mr. SCUSE. They have been denied the ability to get funding from commercial banks.

Mrs. LUMMIS. Even Farm Credit Services. If we get a preferred rate—you know normally if you don't qualify for credit, you are at farm credit or something like that or a commercial bank, you would have to pay more for credit. And yet what we are saying is if you don't qualify for credit, we will give it to you cheaper. So in other words, that seems to be a disincentive to good operators.

Mr. FARR. Based on how much default you have.

Mr. SCUSE. And I think if you will look at those costs or those interest rates, I think a lot of those interest rates are in line with the commercial banks now and what they are lending our producers money for. I think that cost is comparable. So I don't know that we are giving a discount for those loans to those producers.

Mrs. LUMMIS. Thank you.

Madam Chairwoman, one more question, this one about trade, or should we wait around?

FARM LOAN DEFAULTS

Mrs. EMERSON. It would be helpful if you could give us information on the percentage of loans that default as well. You can get back to us on that.

Mr. SCUSE. Thank you. We will be more than glad to provide you that. I think you will be very pleased to see our default, the rate compared to the commercial industry. We have done a very, very good job of managing our lending operation at FSA, and our default is extremely low.

[The information follows:]

Farm Loan Outstanding Balances and Delinquency Totals

State	Number of Borrowers	Number of Loans	Total Outstanding	Total Delinquent	Percent Delinquent
ALABAMA	1,078	1,452	$48,113,575	$2,383,588	4.95%
ALASKA	44	100	$6,600,347	$764,433	11.58%
ARIZONA	293	450	$26,376,881	$4,190,996	15.89%
ARKANSAS	2,215	4,357	$241,195,875	$36,543,245	15.15%
CALIFORNIA	1,033	1,862	$184,003,729	$38,696,799	21.03%
COLORADO	691	1,133	$83,209,345	$4,352,667	5.23%
CONNECTICUT	52	85	$5,016,010	$505,855	10.08%
DELAWARE	23	27	$2,692,603	$0	0.00%
FLORIDA	540	887	$60,117,608	$5,731,400	9.53%
GEORGIA	1,341	2,464	$145,832,567	$19,348,581	13.27%
HAWAII	344	494	$16,453,010	$442,313	2.69%
IDAHO	1,030	1,715	$101,224,703	$2,102,271	2.08%
ILLINOIS	2,158	2,940	$215,769,913	$2,959,021	1.37%
INDIANA	1,128	1,523	$129,826,636	$2,106,066	1.62%
IOWA	3,973	6,761	$461,074,884	$6,513,340	1.41%
KANSAS	3,101	5,264	$345,202,064	$3,527,534	1.02%
KENTUCKY	3,526	6,307	$242,443,922	$7,054,499	2.91%
LOUISIANA	1,365	2,681	$116,999,220	$18,976,254	16.22%
MAINE	361	865	$44,282,936	$2,745,938	6.20%
MARYLAND	116	188	$14,236,702	$1,676,599	11.78%
MASSACHUSETTS	302	717	$39,687,335	$4,453,570	11.22%
MICHIGAN	1,716	3,411	$233,427,248	$13,264,577	5.68%
MINNESOTA	2,936	5,298	$384,525,027	$6,786,538	1.76%
MISSISSIPPI	1,954	3,055	$88,111,288	$22,213,798	25.21%
MISSOURI	2,430	3,961	$207,181,951	$2,879,485	1.39%
MONTANA	940	1,666	$131,553,907	$10,581,935	8.04%
NEBRASKA	3,667	5,922	$411,998,249	$5,459,572	1.33%
NEVADA	119	177	$12,009,500	$1,126,697	9.38%
NEW HAMPSHIRE	228	381	$19,361,865	$995,278	5.14%
NEW JERSEY	166	377	$23,749,288	$5,481,091	23.08%
NEW MEXICO	392	640	$45,133,548	$5,562,587	12.32%
NEW YORK	1,452	3,622	$217,708,519	$22,610,087	10.39%
NORTH CAROLINA	1,076	2,210	$115,201,073	$16,441,211	14.27%
NORTH DAKOTA	2,014	4,412	$297,191,660	$30,240,993	10.18%
OHIO	1,046	1,310	$98,075,409	$2,659,071	2.71%
OKLAHOMA	4,351	7,792	$448,035,045	$21,401,000	4.78%
OREGON	792	1,402	$93,148,841	$4,633,865	4.97%
PENNSYLVANIA	1,740	3,846	$270,026,799	$5,055,736	1.87%
PUERTO RICO	1,794	3,149	$227,930,285	$93,473,651	41.01%
RHODE ISLAND	51	110	$6,849,781	$756,058	11.04%
SOUTH CAROLINA	921	2,006	$110,603,050	$8,134,991	7.36%
SOUTH DAKOTA	2,876	5,323	$320,674,602	$3,586,393	1.12%
TENNESSEE	1,697	2,794	$154,981,703	$10,740,147	6.93%
TEXAS	3,548	6,976	$380,573,893	$27,693,080	7.28%
UTAH	1,281	2,316	$131,536,895	$2,082,378	1.58%
VERMONT	469	987	$71,419,529	$996,129	1.39%
VIRGINIA	794	1,650	$107,549,323	$5,085,273	4.73%
WASHINGTON	656	1,236	$91,004,527	$6,475,039	7.12%
WEST VIRGINIA	1,060	1,837	$70,377,302	$2,568,034	3.65%
WISCONSIN	3,198	6,609	$507,522,510	$11,257,058	2.22%
WYOMING	238	385	$29,580,276	$2,158,653	7.30%
National Total	70,316	127,132	$7,837,402,761	$517,475,374	6.60%

Mrs. EMERSON. Mr. Nunnelee.

NATIONAL EXPORT INITIATIVE

Mr. NUNNELEE. Thank you, Mr. Secretary, for being here.

Shift gears a little bit. The President has said the National Export Initiative that he wants to double exports over the next 5 years. Obviously ag exports are going to play a huge role in that, and that is pretty important for the people I represent in Mississippi.

Could you specifically talk about your agency's role in achieving that goal and what resources you are going to need to achieve that goal? And then in general, talk about the role that ag exports will play in achieving that goal.

Mr. SCUSE. Thank you. Agriculture exports we believe are part of the safety net for our farmers and ranchers throughout the United States, not just for the work that Farm Service Agency does or the Risk Management Agency, but our exports are vital to keeping our farmers and ranchers productive. I think you have probably all seen the numbers, the projections for this year. We are projecting trade, agricultural trade at $135.5 billion, which is above the record year of 2008, which was $114.9 billion, by $20 billion. So agriculture trade is going very, very well. We work very hard to open up doors for our commodities that our farmers and ranchers produce, break down barriers, work with other countries to develop free trade agreements.

So to give you more specifics on what we are actually doing with those, I will let the Administrator, John Brewer, give you some more specifics on exactly how we accomplish that.

Mr. BREWER. Thank you, sir.

Congressman, there is not a whole lot to add to what the Under Secretary said. Basically again through our export promotion programs, we are contributing to the National Export Initiative—NEI—effort. We are certainly collaborating very closely with other members of the President's export cabinet, Treasury, Commerce, et cetera, to work to make sure that we as a government achieve that goal of doubling exports by 2014. Agriculture plays a part of that role, and certainly we are doing all we can to contribute to it.

Within the 2012 budget requests, all of you have seen the effort we have, which is the additional $20 billion to deepen and broaden our efforts to continue to work toward achieving the goal of doubling exports. And I can get into more details if you would like during the course of the rounds with the committee.

Mr. SCUSE. But it is just not the work that we are doing here in Washington as well. We have 98 offices in 75 countries. We have staff overseas to help us deal with the issues and facilitate trade. If there are issues in a foreign country, we have staff there to address those issues as soon as they arise so that we can get our products moving again in other countries. So it is a broad effort to facilitate trade for agriculture products.

Mr. NUNNELEE. Thank you, Madam Chair.

AGRICULTURE TRADE

Mrs. EMERSON. Coming from an agricultural district myself, the thing that does concern me, I mean believe me, I am all for increasing exports by as much as you possibly can. What concerns me, however, is the non-tariff barriers. And that is something we should probably discuss and how you coordinate with FDA and the like on phytosanitary/sanitary regulations, all of those barriers, in spite of having a very laudable goal of increasing exports.

Mr. Latham.

Mr. LATHAM. Thank you. Just to kind of follow up with that.

How much difference is there in bushels exported? What happens when there is worldwide restriction of supply? The U.S. is kind of a supplier of last resort. Prices are very high. How much is the increase in price related rather than bushel related?

Mr. SCUSE. To give you an exact dollar amount I can't at this time comment on exactly what that breakdown would be. I posed basically the same question because my concern was, okay, are we getting the increase in trade simply because we are getting the additional price from the rising cost of the commodities. Corn, soybeans, cotton are at or near record highs. And the answer that I received was no. The $135.5 billion is not based just on price increases. It also comes from volume increases.

Mr. LATHAM. Which is related to less worldwide supply obviously, and we are normally the supplier of last resort to a lot of these places. And as it is restricted elsewhere, we pick up and certainly with corn where it is, soybeans where they are today, that is a big part of the whole equation. I am not sure that we are actually shipping that many more bushels.

Mr. SCUSE. I think we are. If you look at our trade with China last year as an example and the amount of soybean exports, we exported a record amount of soybeans to China last year. So we are exporting a tremendous amount of product. Personally, I don't believe that we are the supplier of last resort.

Mr. LATHAM. Well, historically we have always had increases with world shortages in the U.S.

Mr. SCUSE. In a trip trade mission that I took to Peru last month going and visiting a feed company for the largest poultry producer, there was a mountain of soybeans there. And when I posed the question as to why because it was located so close to other countries, the response was because of the quality. We had the best quality and we were providing a product that had the best feed value for them. So we are producing great products here in this country.

Mr. LATHAM. Did you ask them if they were Latham brand soybeans?

Mr. SCUSE. Next time, Congressman, I will ask. And I will find out next time.

Mr. LATHAM. Okay. Thank you.

CROP INSURANCE

Mr. Murphy, with the Standard Reinsurance Agreement last year we have seen a lot of consolidation as far as local agencies and fewer agents out there. I don't know if you have concerns about the consolidations and what that means to service to farmers.

Mr. MURPHY. We haven't noted that much consolidation going on out there. I pick up anecdotal information as well. I have not heard of any growers unable to find an agent. We have consolidations within the program as a normal rule. Even in 2008, a year the companies made more money than any other previous year, we had major consolidation.

Mr. LATHAM. You are talking about agents.

Mr. MURPHY. Yeah. But I haven't heard that much consolidation going on. I think what is going on is there have been some agencies being purchased by the companies, but not fewer agencies. But I will look into that.

Mr. LATHAM. What do you see? We have a Farm Bill coming up, there is going to a big push by a lot of people to do away with direct events. There is going to be a much larger emphasis on risk management. Do you have any proposals out there? What do you see happening?

Mr. MURPHY. With the upcoming Farm Bill? At this point our position has been to work with the committees on any questions that they have going forward. I know there is a lot of interest.

Mr. LATHAM. Is that like a universal answer? I have been 2 days now with Transportation trying to figure out what they are going to do with the Highway Bill. We will sit down and visit. Okay. Let's visit.

Mr. MURPHY. There is a lot of interest out there. Producers, I think the program has improved tremendously for them. There is a lot of interest from the lenders to maintain crop insurance going forward. So I would expect that and we are prepared to meet the demand that is out there.

Mr. LATHAM. Is there any discussion of the Department taking over risk management entirely from the private sector?

Mr. MURPHY. None that I have been involved with, sir.

Mr. LATHAM. I asked the Secretary last year and he wouldn't give me an answer.

Mr. MURPHY. The private agent system, private company system has been extremely successful in the program. So I haven't entered into discussions on another.

Mr. LATHAM. Has there been any debate in the Department?

Mr. MURPHY. There was some debate when we were doing the SRA initially but not within the Department.

Mr. LATHAM. Where was it then?

Mr. MURPHY. It was above the Department.

Mr. LATHAM. Well, we could do that like the student loans. Apply it to health care.

Mr. MURPHY. Insurance is a different animal. I think you have to have an understanding of the concepts of insurance to be able to work with the growers on the proper coverage levels they should have. So I think it is critical that we maintain the agent system.

Mr. LATHAM. I see I am out of time. Thank you.

CROP INSURANCE PARTICIPATION

Mrs. EMERSON. I am going to go ahead and ask a follow-up question about that because in my congressional district we grow a lot of rice and a lot of cotton and, consequently, the farmers in my part of the country simply have argued forever that crop insurance policies don't work for them. And because of the coverage being tied to yields and to revenue, the insurance unfortunately really can't account for irrigation costs, other types of inputs.

And so I would love to know exactly how RMA is working within USDA to address the disparity if you can tell us exactly why this does exist. And obviously you see it but what kind of efforts you all are making to better incentivise producers to use this as a risk management tool because the northern part of my State, Missouri, it is totally different, down in the southern, mid-south, agriculture, and it is very frustrating I think to a lot of my producers and certainly those folks who aren't engaged in agriculture on a day-to-day basis simply can't understand why crop insurance wouldn't work.

Mr. MURPHY. Right. We have been concerned about this as well. In fact, Chairman Peterson, the former chairman, he was very concerned and said we had to move forward to address this. We have been. We have initiated some studies to look at why producers are purchasing a lower level. The good news is it has actually been increasing participation levels.

Mrs. EMERSON. Let me say this, at the University of Missouri and other institutions their most recent study says that only 63 percent of my producers have crop insurance in my district.

Mr. MURPHY. Right. It is lower than any other part of the country by all means. We are working with the individual commodity groups, such as the rice growers and cotton growers, for specific ways we can improve the policies. We are working on an addendum to the rice policy right now. Hopefully that will be developed within the next couple of years. We are working with the different practices down there to make sure that the rates do reflect the practices being—there is an increase in irrigation throughout the south, so what we are taking a look at is can we have a different structure for irrigated acreage versus non-irrigated acreage and address the fact that the producers are already instituting measures to guard against the risks that they have. Can we reflect that in a premium, that sort of thing.

So we are putting a lot of effort in there. A big issue down there has been the transitional yields. If you don't have the history on a particular land. We are hopefully within the next year or two to be expanding the personal field concepts that we are piloting in North Dakota. Right now I think that will help a lot there. Rate reviews are going on for the crops down there. In fact we did one on sugarcane a couple of years ago and we actually reduced the rates by 50 percent. So we are looking for ways to work with the groups.

ACREAGE CROP REPORTING

Mrs. EMERSON. It seems to me that a lot of my producers say it is too expensive and unwieldy. But the fact of the matter is when you are dealing with the whole administrative costs of crop insurance—and I realize that it is fairly significant in a lot of respects. We give the Farm Service Agency folks the same information that the crop insurance people want. And it seems that if you all could get better coordinated, it would certainly make the life of our producers not only much easier but it would save a ton of money. And it is just absolutely the most frustrating, ridiculous thing that I have ever seen. So is it that hard?

Mr. SCUSE. Thank you for bringing that up. As a farmer, it has also been one of my concerns as well where we have to go and report to two different agencies. We started last summer an initiative, Acreage Crop Reporting Streamlining Initiative, where we are bringing the agencies together on a single report. That is FSA, RMA, National Agricultural Statistics Service (NASS), and Natural Resources Conservation Service (NRCS). We are using different identifiers for land. We don't need to be and should not be doing that. We are going to consolidate that and use one identifier for land. Another part of that project is when I walk in to give a report to the Farm Service Agency, that report will be shared to my crop insurance agent. So I don't have to go do that reporting twice.

So we are headed down that road. That is our objective. And to take that one step further, with today's technology, why should I have to actually physically visit an office when I can sit at home and then put my information on the computer and do a download? That is another part of this project where we are not going to require producers to actually visit our offices. They will be able to do their reports at home. So we are headed down that path.

Mrs. EMERSON. Timetable?

Mr. SCUSE. We hope to have it done in—part of it will be done in 2 years.

Mrs. EMERSON. Why the heck does it take 2 years to do that?

Mr. SCUSE. Well, it has taken us a long time to get to where we are today. But in order to bring all of the systems for all of the agencies and make the changes necessary, that is going to take us about 2 years.

Mrs. EMERSON. So it is an IT issue sort of?

Mr. SCUSE. It is an IT, it is an inputting issue. It is changing the way that the four agencies actually do their business and records.

Mrs. EMERSON. Are you moving to cloud computing so that we don't have to have our farmers stacked up, 4 o'clock they call on the east side of my district, at 5 o'clock they call on the west side of my district, or log into the computer when it is sunny.

Mr. SCUSE. Ultimately, that is where we are headed, and the Congresswoman brought up a good point, provided we have the funding to do this, and that is the direction that we are headed in.

Mrs. EMERSON. It seems to me at the end of the day a little bit of investment here will save a whole lot. And I might add that it will be helpful if you could use one power of attorney for each one of—I mean, if there is one power of attorney at FSA, there is no need for NRCS to have one and another one and another one and another one.

Mr. SCUSE. And as we do these consolidations, then things that make sense, like the power of attorney issue where we can share that between the agencies, we will be able to do which we can't do today.

Mrs. EMERSON. Isn't this embarrassing?

Mr. SCUSE. Yes, it is. And that is why we are headed in that direction to better serve our farmers and ranchers, but not only to better serve our farmers and ranchers, but think about what it is going to do to our office staff and the burden that it will lessen on the office staff. We know we are not going to get any more human resources in the field. We have to do it better and we have to do it smarter and more efficiently. This will allow us to do that.

Mrs. EMERSON. I appreciate that. I wish we could speed it up. Two years seems like a ridiculous amount of time.

Mr. MURPHY. If I could add to that. Moving to a single acreage report will have about 90 percent of the programs on the same acreage reporting data in 2012. So we are moving ahead very quickly on that aspect.

Mrs. EMERSON. It is just common sense, though.

Mr. Bishop.

CONSERVATION RESERVE PROGRAM (CRP)

Mr. BISHOP. Thank you very much. Let me apologize for my delinquency. Let me just ask you a little bit about the CRP program, sir.

The purpose of it is to assist farm owners and operators in improving and competing with our resources of our environmentally sensitive land from agricultural production and keeping it under long-term resource conserving cover.

CRP participants enroll for 10 to 15 years to return for low payments annually along with cost share technical assistance. Over the years, the program has become a target for anybody that is not particularly knowledgeable about conservation but for rates both the farmers as well as Federal support for farmers and the CRP will likely again be targeted for reductions and elimination as we move forward to the 2012 Farm Bill.

So could you give us your view of the CRP program, its national importance as a proponent of our national conservation strategy and can you tell me whether or not the administration will continue to fight the CRP in the 2012 Farm Bill?

Mr. SCUSE. Thank you, Congressman, for the opportunity to address a very important issue. The CRP program which started, as you know, about 25 years ago, we believe is an extremely important program in protecting our natural resources and our environment. Since its inception 25 years ago, we believe that that program has saved 8 billion tons of topsoil from eroding. On top of that, we have protected 200,000 miles of rivers and streams and improved the water quality in those areas.

Just last year alone, CRP land sequestered 51 million tons of carbon, and you add to that the wildlife benefits that CRP provides and the opportunities for sportsmen to take advantage of those opportunities and additional income. We believe that the CRP program is in fact one of the most important programs that we have.

Yes, we know in the last Farm Bill it was reduced from 36 million acres down to 32 million. But we have a commitment to try and keep our CRP land at as close to 32 million acres as we possibly can.

We started signup on March 14th for the next round, there is 4.4 million acres that come out of CRP, and that signup will run until April 15th. So hopefully we will get enough land enrolled to stay near that cap. But it is a very important program, and we look forward to working with Congress and continuing a very important program.

AGRICULTURAL RESEARCH

Mr. BISHOP. Thank you very much.

Mr. Brewer, I would like to welcome you to the subcommittee and it is a pleasure to see a brother doing God's work. The United States is blessed with some of the best agriculture research in the world, technology, biotechnology. We have the most talented farmers in the world. And in my district, for example, peanuts and cotton are king and of course we believe that we have got the best in the world.

My question how can the subcommittee and the Congress help you utilize all of the wonderful resources you have in ag research to strengthen our ties overseas with our foreign friends and to serve our products better, to maintain that, given the fact we are facing budget cuts?

My experience, traveling oversees, is that American agriculture is the highest quality anywhere in the world and because of that, once they get there, because of our 2-year research, we are able to make it a high quality.

How are we going to continue that competitive edge in foreign agriculture with the budget cuts that we are facing with ag research, ARS?

SCIENTIFIC EXCHANGE PROGRAMS

Mr. BREWER. Sir, thank you very much for your question. It is good to see you again.

Regarding research, to step back a little bit and just kind of tell you what we are doing to share that research, because I agree with you, we have a great research capability here within the United States. A lot of that is being shared via our various scientific exchange programs.

We have the Norman Borlaug Program, in which we bring and share or allow foreign scientists and foreign folks in the agricultural community in other countries to come and train here in the United States. We have our Cochran Exchange Program, allowing for opportunities for foreign scientists and agricultural professionals to come and train and spend some time in the United States to learn about a specific area of agriculture that may be their area of expertise.

We also have specific scientific exchange programs with China. I believe we have one as well with Taiwan to have that exchange of ideas, exchange of research, exchange of issues.

So we are certainly, through our various programs within the agency, are certainly sharing that, also within our capacity building program and our capacity building efforts that we work in conjunction with AID, USAID, to again build the capacity of other countries to ensure two-way trade. I mean, you have got to have two-way trade for them to want to buy our products. They have to have the opportunity to sell to us as well, so in our capacity building we do that as well.

NATIONAL EXPORT INITIATIVE (NEI)

The second part of your question about selling our products, certainly peanuts, as well as pecans or other horticultural, as well as cotton. Again, our involvement in the NEI effort is certainly something that we are strongly engaged in and are doing a great deal to promote our products. Our offices overseas are being very much engaged in and can do more and want to do more to put the foreign buyer with the American seller of our products. So our overseas presence is something very important with that as well.

I can engage more with you about other issues, but that is certainly there.

Mr. BISHOP. I think my time is up, but I am wondering how this is going to be impacted by the budget cuts that we face.

Mr. BREWER. I would be glad to talk to you about that.

Mrs. EMERSON. Mrs. Lummis.

FOOD AID PROGRAMS

Mrs. LUMMIS. Thank you, Madam Chairman.

Back to foreign food aid, as I understand it there are three major programs, McGovern-Dole, Food For Peace, Food for Progress, are those the three majors? Okay.

Which of those do you think is the most efficient and effective at supporting long-term development across the globe? If you had to prioritize those three programs, how would you do it?

Mr. SCUSE. I will defer to the Administrator on that.

Mr. BREWER. Ma'am, let me step back. The programs have different focuses. Certainly the McGovern-Dole program is focused on education, which is something I think we can all agree is very, very important. The Food for Progress is for educational, I am sorry, economic development, so again you are focusing on another angle that we believe is very important, and then Food For Peace is for emergency response, as humanitarian efforts. So, each of those are priorities, each of those are important.

So to weigh them against one another is difficult because they are focusing on different areas. There are three different areas.

Mr. SCUSE. There are three different programs and it is almost impossible because they have three different purposes and missions and purposes.

Mrs. LUMMIS. I hear you, but of course we are spending money we don't have and we are going to cut spending. So we are put in a position if the agencies don't tell us how to prioritize spending cuts or expenditures, we are going to prioritize them. And I would so much rather hear agencies come and help us prioritize these programs, because we are going to cut them. And we can do the across-the-board gig, but I don't know that that is the best way to go. So I am really hoping that agencies will help us figure out how to do these cuts.

Let me ask it this way then.

What characteristics define the most successful program and how could those characteristics be applied to the other food assistance programs?

Mr. BREWER. Well, again, Congresswoman, we have got three different programs with three different priorities. If I can step back and kind of touch base on something.

Mrs. LUMMIS. You know what, I will just switch over to free trade.

Mr. SCUSE. Thank you.

Mrs. LUMMIS. It would, however, help us if you would help us prioritize.

Mr. SCUSE. And we would love to be able to help you do that but, you know, those three programs are so important and so critical.

Mrs. LUMMIS. So it would be better to do across-the-board cuts to those programs?

Mr. SCUSE. I don't know how we would be able to single one program out over another because the nature of those three programs is so different.

Mrs. LUMMIS. Okay.

Mrs. EMERSON. I am just going to say one thing to Mrs. Lummis and something that you all probably should have said was that at least on the Public Law 480 piece. This is helping the American farmer as well because it is our commodities that are being donated and so that is helpful when we have excess commodities for our farmers, and that is the one piece that makes that program much different.

So, go ahead, I am sorry.

Mr. SCUSE. Thank you for your assistance.

FREE TRADE AGREEMENTS

Mrs. LUMMIS. Thank you. I am not saying every program is going to get cut, but I am saying we do have to prioritize, because we are not going to be able to spend the same amount of money we have in the past. That is all I am saying.

Okay, let me switch to free trade and here is one that is a fun question. How much is each of the pending free trade agreements projected to increase agriculture's positive trade balance? I am talking about South Korea, Colombia and Panama, because I see these as programs where many agribusinesses support them, they argue for quick approval because of the Obama administration's National Export Initiative, and that that is a government-wide goal of doubling U.S. exports over the next 5 years, which seems to me you know the way, you know, we want to grow our way out of the economic malaise we are in. We want to expand free trade. We want to sell more of our commodities overseas. We know this produces jobs in the U.S. So I am all about it.

So have you studied these and how they will affect American farming and ranching?

Mr. SCUSE. Yes, there are some projections out there. The Korean Free Trade, South Korean Free Trade Agreement is projected to increase agricultural sales from, anywhere from $1.9 billion to as much as $3.8 billion currently. That is a $5.2 billion market.

The Colombia Free Trade Agreement is projected to increase sales just under $700 million, and I believe the Panama FTA is projected to increase sales just under $200 million.

Mrs. LUMMIS. Thank you very much. That is good news for U.S. agriculture and for our balance of trade, so I appreciate that.

One more about CRP. Whoops, my time is expired.

Mr. KINGSTON. Your time has expired. Ms. DeLauro.

TRADE WITH CUBA

Ms. DELAURO. Thank you, Mr. Chairman. I would also like to ask you if you could tell us what, by lifting the embargo on Cuba, how much that would add to our agricultural opportunities, and they are so close we wouldn't have to go the distances with our products that we now have to. So if you could get that information to me I would appreciate it.

Mr. SCUSE. Yes, I don't have that at the top of my head.

[The information follows:]

Agricultural trade with Cuba is permitted under terms of the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000. While trade is permitted, no U.S. government assistance or programs can be used to promote agricultural exports to Cuba.

Starting at zero in 2000, U.S. agricultural exports to Cuba grew steadily throughout the decade, peaking at $685.5 million in 2008. In 2009, exports declined to $525.9 million and again in 2010 to $360.6 million. In the last few years, the United States was the largest foreign supplier of agricultural products to the citizens of Cuba.

There is evidence of demand in Cuba for numerous agricultural products. In 2010, poultry led U.S. agricultural exports to Cuba with sales valued at $109.1 million, and corn exports were the second largest export at $94.8 million, followed by oilseeds at $83.7 million.

Ms. DELAURO. No, just get it to me about lifting the embargo on Cuba and what that would mean in terms of U.S. agricultural products.

IMPROPER FARM PAYMENTS

I would like to talk about some priorities that we can look at in terms of cutting, and that has to do with improper farm payments.

We have a GAO report released earlier this month, extensive report, Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. The report noted that taxpayer dollars can be saved with strengthened oversight of farm program payments, including direct payments.

I might add that the State of Wyoming, 544,000 people, 31,285 of them are compensated with a subsidy. That is about $678 million, so the average is about $21,672 per person in terms of subsidies. So I think it is important to know that when we try to take a look at what payments are going where and where we can begin to look at what our priorities are in terms of cutting back.

Let me go back to improper farm payments. I can list for you, GAO did, USDA provided farm program payments to thousands of individuals, incomes exceeding income eligibility caps. Some of the examples, founder, former executive of an insurance company, received more than $300,000 in farm program payments in a 4-year period that should have been subject to income limits.

Individual with ownership interest in a professional sports franchise, more than $200,000 in payments that should have been barred by income limits. There are a number of others. I can provide you with those examples. I am sure you read the GAO report and you know what those examples are.

The conclusion was that reducing or eliminating direct payments to farmers, particularly those to large farming operations, could achieve cost savings of approximately $5 billion per year, significant savings for our taxpayers. I thought it was awfully interesting to note as well when I read the GAO report that direct payments were expected to be transitional, transitional.

In addition, direct payments go to farmers regardless of risk factors. That means that you need to lose crops, there needs to be no decline in prices, you just get the payment. When I say transitional, accordingly the payments were scheduled to decrease over time and expire in 2002. However, subsequent Farm Bills have continued these payments.

Now, what are some of the actions that FSA has taken to reduce the error rate for farm payments and, if and when FSA is able to achieve a stable IT infrastructure, would it be able to reduce erroneous farmer payments? Do we want to take a look at priorities to reduce the deficit?

Let's not take it out of the mouths of the hungriest people in the world or people here in the United States, for that matter, who are hungry today. Let's go where there are improper payments and capture that funding in order to be able to reduce our deficit. Tell me about FSA and being able to do this.

One highlight, July 2007, USDA paid $1.1 billion in direct payments to more than 170,000 deceased individuals. Can we get the house in order and be able to reduce the deficit through improper payments? Please respond to the question.

INCOME ELIGIBILITY

Mr. SCUSE. Okay. I think there are several different questions there. The issue with the improper payments going to those that should not receive them, we believe that we have addressed that issue the last 2 years. Now, our producers, when they sign up for a program, have to sign a form where we are then having the Internal Revenue Service—IRS—to look at the income levels of those individuals.

Ms. DELAURO. Excuse me for one second. The recent GAO report came out in March, here it is, Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. That is what I was quoting from when I dealt with this current list of improper payments. Right now, it is still existing.

Mr. SCUSE. Well, as I said, Congresswoman, we have started a process where those individuals that are participating in our programs now have to sign a form giving the IRS permission to go back and look at their records to make sure that they are, in fact, income eligible. We believe that will go a long way if not totally eliminating the abuse of the program for those that make more money and that are participating in our programs that should not be.

DECEASED FARMERS

The second part of your question on deceased farmers, there is a reason why deceased individuals are, in fact, receiving payments. They signed up for our programs. They started the farming operation so they or their estate is entitled for payment of that money because their farms did, in fact, participate in the program.

Mr. KINGSTON. The gentlewoman's time has expired. Mr. Latham.

Mr. LATHAM. I thank the gentleman.

Farmers are not immortal.

Mr. KINGSTON. Well, would the gentleman yield a minute. If the gentlewoman would yield. I think, actually, with unanimous consent I would like to ask for the time to let you answer the question of dead farmers, because there is a question about eligibility for the family of the deceased, isn't there?

Ms. DELAURO. Yes. Let's talk about the food stamps and you die and whether or not your family is entitled still to be able to get them.

Mr. KINGSTON. Well, I only want to know the explanation. Is there an explanation on it?

Mr. BISHOP. For the dead farmer?

Mr. KINGSTON. For the dead farmer.

Mr. SCUSE. For the deceased farmer. They signed their farm up for a program, for a farm program. They, in fact, participated in that farm program for that crop and year. So at the conclusion of that year, that farm, that farmer or his estate is, in fact, entitled to the funding for that program.

Ms. DELAURO. Subsequent years though are at issue.

Mr. SCUSE. No, not for subsequent.

Ms. DELAURO. Well, but this has gone on for subsequent years.

Mr. SCUSE. Okay. Unless, Congresswoman, it is for a long-term program, long-term funding such as an Environmental Quality Incentives Program—EQIP—or a CRP program, those are long-term programs that they have put their farms, enrolled their farms in, which they would be entitled to a payment.

DIRECT PAYMENTS

Ms. DELAURO. The issue here is then, and as long as the gentleman kept the time open for a second here—and I really would like an answer from you on direct payments that were supposed to go out of existence in 2002.

Should those direct payments go out of existence, in your view, in terms of no risk involved, you get paid regardless of risk and in addition to which you don't have to have a crop decline, you don't have to have any loss of crop, you just get a payment?

Should we use and save $5 billion in this program?

Mr. SCUSE. Well, Congresswoman, that issue was debated in the 2008 Farm Bill right here in Congress.

Ms. DELAURO. I am asking your opinion. You are in charge of this program.

Mr. SCUSE. You know——

Mr. KINGSTON. He is acting.

Mr. SCUSE. Yes, and my opinion is immaterial. That decision is for Congress to make, and it was debated strenuously in the 2008 Farm Bill.

Ms. DELAURO. True. I would concur it is Congress' decision. And if we are looking for places where we can cut, where there is no risk, you just get a payment because you get a payment. You have to take no risk at all.

Mr. KINGSTON. If the gentlewoman will yield back.

Ms. DELAURO. I will yield back, Mr. Chairman. You got my point.

Mr. KINGSTON. Yes. And I think what we would be interested in——

Ms. DELAURO. You got my point.

Mr. KINGSTON. As the entire committee would, and I am sure you are as well, on those areas where there is clearly abuse, if you have some language recommendation and we could dare to authorize an appropriation bill, we might want to float that language. Because I think improper payments is something that we are all concerned about and that is where you could come up with a lot of bipartisan consensus on ways to reduce spending.

RECORDS CHECK

Mr. DOLCINI. Sir, I just have one more data point to add on the dead farmer issue. The Social Security Administration has something called the death master file that FSA cross-checks four times a year. That is twice what we are required to do statutorily, just to make sure that our records are as accurate as we can possibly make them, Congresswoman.

Mr. SCUSE. If I may——

Mr. KINGSTON. If you will, we will work with you on whatever language it would take to help us all get there.

Mr. SCUSE. Well, the point of what the administrators have made and what I did with our IRS records is the fact that we are, you know, we are making, you know, a great deal of effort in trying to prevent those payments from being made. But with this, with the Social Security records, with the IRS, we are making great progress.

[The information follows:]

As a result of Executive Order 13520, Reducing Improper Payments, issued in November 2009 and the Improper Payments Elimination and Recovery Act (IPERA) passed in July 2010, a number of actions were initiated by the Office of Management and Budget for FY 2010. One of those was the designation of fourteen "high-error programs" that significantly contributed to the government's improper payments. GAO, in the subject report, and based on Agency Performance and Accountability Reports for FY 2010, cited ten of the fourteen high-error programs as accounting for the majority of the reported improper payments for FY 2010. None of the FSA programs are categorized as high-error programs.

It must be noted that the GAO report stated that, based on the continued improvement of FSA programs with regard to improper payments, the Marketing Assistance Loan Program was applauded for reducing projected improper payments by $50 million dollars from FY 2009 to FY 2010. Comparable improvement in other programs has also been achieved for other FSA programs.

Ms. DELAURO. We need a response to the GAO report from you about direct payments, about direct payments. This is a recent one and specifically directed toward reducing duplication, saving tax dollars, and enhancing revenue without——

Mr. KINGSTON. The gentlewoman's time has expired. We have got to go to the Republicans to get some questions here.

Ms. DELAURO. You have not been here, Mr. Chairman. The Republicans have all been asking questions.

Mr. KINGSTON. I know. I am about to bring up foreign aid with my friend from Atlanta.

Mr. SCUSE. Mr. Chairman, just one second here, personal privilege, I do have a response to your Cuba question.

Mr. KINGSTON. You have no personal privilege on that right now. We will have to let Ms. DeLauro get the time back. We know what her position is on Cuba.

Mr. Latham.

Ms. DELAURO. Thank you very, very much. He can come around and ask it. That is okay. We can have another round and ask it.

Mr. SCUSE. Yes, we will get it.

Mr. KINGSTON. I am confident that you will.

DIRECT PAYMENTS

Mr. LATHAM. Do I finally get a chance? I think we have learned that farm programs can be deadly, anyway, and I think the gentlewoman will be pleased to hear that there is a growing consensus, certainly, like in the Iowa Farm Bureau, to do away with direct farm payments. And that is going to be a major bone of contention, I think, in the next Farm Bill. We are certain it is more of a regional issue than it is maybe—than anything else.

NEW PRODUCTION ACREAGE

But I was curious earlier, talking about the benefits response to Mr. Bishop's question about the CRP. There are estimates by USDA we are going to have 9.8 million acres come into production in 2011 to meet increased demand from commodities, so where are those acres coming from?

Mr. SCUSE. That is a very good question.

Mr. LATHAM. Well, it is your projection.

Mr. SCUSE. And if you ask that question tomorrow at this time I can give you an answer, because our crop reporting, crop intentions report comes out tomorrow morning, which will give us an idea of the acreage that is going to be planted by the various crops. That report will be signed at 8:30 tomorrow morning. That is, in fact, a very good question.

You know, we need to see. Is it going to come from the vegetable industry? Are we going to lose acreage from rice plantings to go to cotton?

At this time, I don't know exactly where that acreage is going to come from, but we will be able to get you an answer this time tomorrow.

Mr. LATHAM. Please come by.

Mr. SCUSE. I will make sure.

[The information follows:]

In the baseline for the FY 2012 President's Budget, USDA projected that plantings in 2011 will be 9.8 million acres higher than 2010. The recently released "Prospective Plantings" report is roughly in line with this projection, as farmers indicated they will increase plantings of the 8 major crops (corn, wheat, soybeans, cotton, rice, barley, sorghum, and oats) by 8.6 million acres, based on the annual National Agricultural Statistics Service (NASS) survey conducted around March 1, 2011. The most significant difference between the projection and the intended acreage was for soybeans, which was 1.4 million acres lower. This may reflect further gains forecast for Brazilian soybean production now being harvested and some cancellations of soybean purchases by China, slightly dampening soybean market expectations.

Very strong prices for virtually all the crops are providing market incentives to plant more this year. When prices increase, farmers will bring additional land into production, as they have done in the past, generally tapping more marginal lands. The 8-crop total of 253.8 million acres of intended plantings for 2011, if realized, would still surpass the 2008 total of 253.1 million acres, another year of very high prices. This is not surprising, with several crop prices at record or near record highs. In addition, current CRP enrollment, 31.2 million acres, is 3.4 million acres lower than in 2008. The planted crop mix varies by year, reflecting prospective returns for each crop, rotations, fallow needs, double cropping, and weather effects. Compared with 2008, the intended planting choices in 2011 show less hay, dry beans, peanuts, and sunflower.

Mr. LATHAM. Okay.

IMPACT OF GIPSA RULE ON TRADE

With the FAS, there is a proposed rule for GIPSA that is pending out there. Is that going to have any impact as far as trade?

Mr. BREWER. Congressman, can we give you an answer for the record? I am thinking right now on what that will be.

[The information follows:]

On June 22, 2010, GIPSA published a proposed rule in the Federal Register. The purpose of the new regulations is to describe and clarify conduct that violates the Packers and Stockyards Act, and is intended to increase fairness in the poultry and livestock industries. USDA does not believe the proposed changes would have an impact on trade; however, the agency received over 60,000 comments during a 150 day comment period and will closely review any such comments that were raised in regard to trade issues.

Mr. LATHAM. Okay. Well, in the proposed rule, buying and selling of livestock. And I don't know what, if that is going to have any impact as far as your operations. I don't know if maybe the acting is not a real under secretary but he plays one here today.

Mr. SCUSE. The Grain Inspection Packers and Stockyards Administration—GIPSA—role deals primarily with domestic production.

Mr. LATHAM. Right, yes. Do you see any—okay. Are you involved with that as far as the rule?

Mr. SCUSE. The GIPSA rule, no, sir.

Mr. LATHAM. Well, there is obviously a lot of concern with that in the community. Actually, Jack, why don't you go ahead. I think for now I will submit some questions for later, but that is fine.

Mr. KINGSTON. I think the Secretary would like you to continue because he knows Ms. DeLauro is getting back up there.

Mr. Farr.

CONSERVATION RESERVE PROGRAM (CRP)

Mr. FARR. Thank you. Both Mr. Bishop and Mr. Latham talked about the CRP program, and I just would like to better understand it. I understand that they are to assist essentially best management practices so that we don't degrade soil, water and air and wildlife habitat, riparian, and so on.

But I understand, if California is a big State and has an awful lot of resources, there is only $47,000, I think, in California in the CRP program, where the biggest user in the country is Iowa. Now, Mr. Latham is a really effective Congress Member.

Mr. LATHAM. Tell the folks at home that.

Mr. FARR. I am saying it right now on the record. But I just can't for the life of me understand why Iowa has better, more conservation resources to protect than California? And I would like to ask Mr.—I mean, you talk about getting long-term resources. Aren't there any carrots in this? Don't you require zoning practices?

I mean if it is wildlife habitat, riparian, I think you shouldn't be able to farm on that. That is just not good management practices. Why do we have to pay people to preserve what is essentially against the law if it was Federal land or, in California, you could never do it because you have to do local zoning practices that have to outline where these things are.

You can't farm on steep lands. You can't farm, you can graze. You can't cut down riparian corridors by loggers or anything because you have got to save the fish habitat, which is also a big business for salmon fishermen and other anadromous fish types.

So I don't understand why this program is so important and what kinds of assurances you get out. There is no long term, other than you get an annual rental payment, for not doing what you shouldn't do anyway.

Mr. SCUSE. Well, let's not lose sight of the fact this is a voluntary program, okay. We don't mandate that anyone go——

Mr. FARR. But how do you ensure it is long-term protection? Do you have a Williamson Act——

Mr. SCUSE. Well, we have signup for a 10- to 15-year period of time.

Mr. FARR. And how do you break that? If you want to come along and a developer says I will pay you a gazillion dollars for your land because I want to build my next Wal-Mart there and they are in the CRP program, what do they do?

Mr. SCUSE. It is a pretty solid agreement. You are in for the 10- or 15-year period of time. I mean, you know that when you go in.

Mr. FARR. Is it automatically renewed?

Mr. SCUSE. No, no.

Mr. FARR. You have to wait for it to run and then renew it?

Mr. SCUSE. When it comes out then you have the ability to re-enroll. Like I said earlier, we have 4.4 million acres.

STATE PARTICIPATION IN CRP

Mr. FARR. Why shouldn't we require States that are participating in this to be a little more proactive in helping to do land management?

Mr. SCUSE. Well, one part of the CRP is the Conservation Reserve Enhancement Program—CREP—which we do, in fact, have State involvement in. So, I mean, there is part of this program where the States are actually putting up some of the funding for it. For those areas that are extremely environmentally sensitive that the States want to protect, they are in fact our partner in this.

Mr. FARR. The point is that the Federal Government ought to be a leader in recommending those things to the States to implement.

For example, if you are going to graze on Forest Service lands or BLM lands, you have got to do best management practices. We require those standards. So what, and those are used, I think, in a lot of purposes for just cattle ranching, because they are smart things to do to protect the water quality and so on.

The point is that if the CRP program—is it just going to be a payment program or are we really going to provide some leadership of knowledge that we have learned over the years of how to do this and get it implemented into land use structure in this country? Each State has a different land use planning but Mr. Dolcini, you know, he knows California, and we have land that you can put into ag conservation programs. It is a 20-year contract for Williamson Act and is automatically renewed every year unless you opt out. If you opt out, it doesn't expire for the next 20 years. It starts running the day that you opt out.

But that was more to protect those lands from property taxation issues. And I just—and California doesn't get very much use out of CRP. It kind of shocks me. Why not?

Mr. DOLCINI. Well, the short answer, Mr. Farr, is that CRP in California hasn't been that attractive because land values are so much higher in California than they are in a lot of other States. And so rental rates that we would pay a participant under CRP just aren't, you know, they don't pencil out.

Mr. FARR. So none of the soil and water and air and wildlife resources get protected?

Mr. DOLCINI. No, we do work, FSA in California has a great relationship with the Natural Resources Conservation Service and in some instances with the State of California and the Department of Conservation there to focus on lands that are particularly environmentally sensitive. And CRP does work in San Luis Obispo County, in Yolo County, Siskiyou County, a couple of other small pieces of the State.

Mr. FARR. That is because you have incredibly good Farm Service folks there to advise the farmers.

Mr. DOLCINI. Well, that is right.

Mr. FARR. It is their personalities that make it work dedication.

Mr. DOLCINI. It is the dedication, frankly, of a lot of great USDA employees in the field that have really worked with local farmers and ranchers to sell those programs.

Mr. FARR. Okay, if that is what California learned from the program and has very little usage, why can't we help other States wean themselves off of this?

Mr. DOLCINI. Well, that is a good question. I mean, certainly, my experience in California will hopefully be of benefit to my colleagues around the country. And if I can, you know, if I can talk about some of the collaborative work that we have done as an agency there in the hopes that it will be replicated elsewhere, as I know that it is.

Mr. FARR. I really appreciate that. That is leadership and I would like to see some leadership in this program rather than just coming back every year and telling us how many contracts have been signed, we put a cap on it. It has got to work better. We have got to learn something from it.

STABILIZATION AND RECONSTRUCTION

Let me switch, because my time is limited, to Mr. Brewer. Are you aware of the State Department USAID's program on stabilization reconstruction?

Mr. BREWER. Yes, sir.

Mr. FARR. How do you tie into that? I mean we had General Abizaid, when he was the theater commander in the Middle East, telling us that he would rather have one USDA native speaking language expert than 100 soldiers.

Mr. BREWER. Yes, sir.

Mr. FARR. That the value of an agricultural expert who could speak the language is more valuable. And so we created that program in the State Department to especially find career people who were linguists and were in area studies and say, look it, you can specialize in being kind of a special mission, just like you do in special ops that you can do in the military, where you pull all your skill sets together regardless of what service you are in. And you go in and do a special operation, whatever that is. It is not always just wiping out people, it is some steps to stabilization.

And the idea is in sub-Saharan Africa, we are going to need people on the ground. You are not going to be able to do any food aid programs or anything. They can't afford it. It hasn't developed any infrastructure for their ability to grow or you are going to have massive starvation, according to the CIA and other environmental reports, if we don't build the infrastructure on the ground in sub-Sahara Africa.

We are going to get people that are going to have to live out in the boonies, speak the native languages, for Peace Corps types. And I don't see, I mean, I would like to know how USDA is—you are paying for a lot of this, and are you taking advantage of being part of that team that USAID and State Department is putting together? They have a training center out here in Virginia where you go and get S&R training and you get this big jacket that says you have been trained in stabilization and reconstruction. It is a whole new career.

Mr. BREWER. Yes, sir. Thank you for your question, Congressman.

Where we are involved in the efforts that are being funded through the State Department is our activities in Afghanistan, as well as——

Mr. FARR. Who takes the lead, does the USDA?

Mr. BREWER. Well, what we are doing is we are providing technical assistance within Afghanistan. We are using, a lot of that is being paid for with State Department AID funds.

Now, within the 2012, our 2012 budget requests, we have a request for $14.6 million. That money is to basically do the management of the funds that we are getting from the State Department and from United States Agency for International Development—USAID. So that is our role. We are using that $14.6 million to manage these other funds.

Mr. KINGSTON. The gentleman's time has expired.

CONSERVATION RESERVE PROGRAM

Mr. Dolcini, I wanted to ask you, on CRP in terms of total crop acreage planted, how many acres is that? It is 32 million, right?

Mr. DOLCINI. 31.9.

Mr. KINGSTON. That is right. So what percentage of total crop acres is that?

Mr. DOLCINI. I don't know, sir, off the top of my head.

Mr. KINGSTON. I am thinking it is 10 percent, if that sounds right.

Mr. DOLCINI. Of all United States crop acreage?

[The information follows:]

Currently, there are 31.2 million acres enrolled in the Conservation Reserve Program (CRP), of which, 30.5 million acres are classified as cropland. This represents 7.5 percent of cropland as defined by the 2007 Census of Agriculture. CRP costs are fairly constant over time, and over the last 5 years have averaged $1.9 billion. You refer to CRP costs being 50 percent of the crop payment. Assuming this refers only to direct payments of $5.4 billion per year, then CRP costs would be 35 percent of the direct payment costs.

You also mention that there is a concern that CRP tree plantings in Georgia are over-prescribed. In Georgia, 269,000 CRP acres are planted to trees, representing about 0.3 percent of the private forestland in Georgia. That number includes about 195,000 acres of ecologically important longleaf pine plantings. Total longleaf pine acreage has declined by over 90 percent in the Southeast since European settlement.

Mr. KINGSTON. Yes. I am thinking that might be right. I don't need to know right now, but here is the other question, what percentage of the payment programs is it because here I have some concern. I understand it is about 10 percent of the acres but about 50 percent of the crop payment.

And that is where I think the CRP does get disproportional. Flying over the State of Georgia in small planes, just about every stand of pine trees you see is now planted and it would appear to me that it is over prescribed because it is not all highly erodible land, but the $10 an acre, whatever, is something that people are pretty happy about and that is where I think we have some concern.

DIRECT LOAN DELINQUENCY RATE

I want to ask you also, though, on rural development, excuse me, on your programs in terms of your loan, direct loan delinquency rate is 5.9 percent, but the guarantee programs, the delinquency rate was 1.7 percent, which is a pretty big difference. And I was wondering what you were doing to reduce your delinquency rate on direct loans.

Mr. DOLCINI. You know, the dollar amount is a little bit lower than the total percentage of direct borrower delinquency, so we are just working more aggressively these days with borrowers around the Nation. We have done a lot of investments in web-based applications that I think are allowing us to keep track of the——

Mr. KINGSTON. But do you know why it is so high, why there is a difference?

Mr. DOLCINI. Between the guaranteed and direct, I don't know, sir.

Mr. KINGSTON. Mr. Scuse.

Mr. SCUSE. I think if you look at those that are eligible for the direct loans versus those, the ones where we do the joint loans for the bank, I think there is a difference in financial capabilities, number one; and, number 2, if you look at our delinquency rate, it is true that the commodity prices the last couple of years have been very good, but if you look at what has happened to the livestock industry, especially the dairy industry, and what the pressures that that group has been put under the last couple of years as well as up until recently the pork producers, there has been some issues.

Mr. KINGSTON. I think that this committee, as much as the authorizing committee, we are going to want to take real strong looks at ag programs in general, the traditional ag programs, and look for ways to reduce and that delinquency rate stands out to me, the CRP program, and there are some other things and then the GAO report. We are all, I think, fairly united on that.

The other thing that I want to ask you about, MAP comes under—I am not ready for you yet, Mr. Brewer, I am coming your way.

Okay. Let me ask you, Mr. Dolcini, but we will start off with MAP when we get there.

NATIONAL AGRICULTURE IMAGERY PROGRAM

Mr. Dolcini, on aerial photography you spend $10 million a year doing that, approximately.

Does Google pay you for the map?

Mr. DOLCINI. I don't think they do, sir.

Mr. SCUSE. No.

Mr. KINGSTON. They don't. You know, the folks spend $10 million on lunch at Google, and you can Google, and I think the committee has seen this. But this is a USDA map that Google is using basically for commercial purposes. I think that is something we are going to take a real strong look at.

[The information follows:]


Web Images Videos Maps News Shopping Gmail more
Sign i
Google maps
Search Maps
Print
Send
2000 ft
500 m
Report a p
Internet | Protected Mode: On
125

Mr. KINGSTON. And, you know, if it was for the children's home back in Des Moines, since Iowa gets all the money, we probably had a different view. But since Google is using that, not Google, but I think that they are going to have a—they are just grabbing it. It is public.

Mr. SCUSE. It is public. They have the ability to have access to that and in order to charge for that there would have to be some sort of legislation because we don't have that ability to charge for that.

Mr. BISHOP. We have the ability to legislate that.

Mr. KINGSTON. Yes. We want to look at that.

FOREIGN SERVICE OFFICERS

All right, Mr. Brewer, I think my time is about up but I wanted to say this with my 6 seconds, I have had the opportunity and insist on the opportunity of seeing your employees whenever I travel, including last week in Guatemala. And I have got to tell you, I think they are some of the finest public employees there.

I have questions about the missions, which I want to talk to you about, that I think my next question to you is why do we do this foreign aid? But I have got to say, your employees have always impressed me. They are on the ground with the folks. They are not afraid to take their coat and tie off. They are not just advisers, they are friends in the villages and I think that they actually are far more effective than the average State Department counterpart. State Department are good, too, but I really like that.

Mr. BREWER. Thank you very much for that, sir. Just to quickly let you know, Bob Hoff and Robert Hanson say hello.

Mr. KINGSTON. Oh, they were all over me.

Mr. BREWER. And they say hello. I am very proud of them.

Mr. KINGSTON. I would say you question a program and you get a lot of friends. Mr. Farr—I am sorry, Mr. Bishop. Actually, I want to say Mr. Farr, who has traveled a lot and does a lot of the on-the-ground stuff, he was with me, too, in it as well.

Mr. Bishop.

REGIONAL DIFFERENCES IN AGRICULTURE

Mr. BISHOP. Thank you very much. Let me just quickly respond to some of the comments from Mr. Latham and Ms. DeLauro with regard to direct payments as we look forward to the Farm Bill discussions. I hope that you and the Department and the administration and my colleagues will understand that these are regional issues when it comes to direct payments, when it comes to CRP and the overall safety net for the total agricultural portfolio and that no cookie cutter approach will work, that there are different crop portfolios for different regions of the country and they require different kinds of support.

And when we develop our farm programs, what works in Iowa with regard to direct payments may not be the same, have the same effect as it would have in Georgia or the Southeast, because the portfolio of crops in the Southeast are totally different and the farmers have different needs and have a need for different kinds of support, including CRP.

Let me just shift gears for a moment, though, and you can comment if you like.

SOCIALLY DISADVANTAGED FARMERS

But I want to talk about the minority farmer support by FSA. A big part of the direct and the guaranteed farm operating and ownership loan funds is targeted to the socially disadvantaged borrowers based on county level demographic data. Although the targets vary by loan program and by county, about 14 percent of the funds are targeted to socially disadvantaged borrowers. A key performance measure for the farm credit programs is the percentage of beginning farmers, the racial and ethnic minority farmers and women farmers that are financed by FSA.

Can you tell us what the total percentage of loan farm funds and the total dollar amount were that were actually targeted and received by the socially disadvantaged farmers last year? And if you have it available, can you provide the data for States of Georgia, California, Connecticut, Wyoming, Washington, Mississippi, and Iowa?

Mr. SCUSE. Congressman, to your last question, I don't have those numbers with me, but we will be more than glad to get those numbers for you and for the record.

[The information follows:]

FARM SERVICE AGENCY
FARM LOANS TO SOCIALLY DISADVANTAGED FARMERS
FISCAL YEAR 2010

	Direct Operating			Direct Farm Ownership		
State	Initial Targeted Allocation	No. of Loans Made	Dollars Used	Initial Targeted Allocation	No. of Loans Made	Dollars Used
California	7,715,000	224	9,462,000	11,969,000	17	3,896,000
Connecticut	116,000	3	135,000	633,000	0	0
Georgia	6,200,000	147	11,953,000	3,355,000	24	505,100
Iowa	5,204,000	107	2,021,000	3,940,000	11	1,715,000
Mississippi	3,198,000	114	3,041,000	3,814,000	7	1,031,000
Washington	4,689,000	145	8,188,000	3,043,000	10	2,018,000
Wyoming	450,000	14	677,000	1,373,000	4	602,000
All other	133,659,000	3,445	143,387,000	120,246,000	602	97,174,900
Grand total	161,231,000	4,199	178,864,000	148,373,000	675	106,942,000

	Guaranteed Operating			Guaranteed Farm Ownership		
State	Initial Targeted Allocation	No. of Loans Made	Dollars Used	Initial Targeted Allocation	No. of Loans Made	Dollars Used
California	N/A	17	3,896,000	N/A	22	8,826,000
Connecticut	N/A	1	50,000	N/A	0	0
Georgia	N/A	21	5,764,000	N/A	28	11,387,000
Iowa	N/A	10	1,864,000	N/A	6	1,675,000
Mississippi	N/A	0	0	N/A	0	0
Washington	N/A	26	6,270,000	N/A	5	2,835,000
Wyoming	N/A	5	1,510,000	N/A	1	330,000
All other	N/A	386	88,893,000	N/A	248	90,402,000
Grand total	N/A	466	108,247,000	N/A	310	115,455,000

AGRICULTURE SAFETY NET

Mr. SCUSE. And to your first comment, you are exactly right. There are regional differences in the United States that do affect the different programs, whether it be, you know, CRP, direct payments or whatever. So there are regional differences, and that is why the discussion needs to take place within Congress for those programs because of those regional differences.

Mr. BISHOP. The bottom line is we have got to make sure that for our national security purposes, for our economic security purposes, for our health purposes and our capacity that there is a safety net. When prices are high, the programs perhaps are not necessary, as necessary for our farmers. But if there is some kind of disaster, if there is a problem or if there is a supply and demand problem, then our farmers will need to have that support so that safety net has got to be in place all the time. All the time it may not be needed, but whatever framework we put in place has to be adaptable to reflect the economic exigencies and other national security exigencies that we may have, because we don't want to ever be in a position of having to be able to get our food and our fiber from outside of the country because our own farmers can't produce it.

We are like that now with national security with the steel industry. We can't even build battleships with our own steel produced here. We got to import it.

So this is a question I would hope that would be on the table and considered when we develop farm policy long term with the Farm Bill and with our budgets because we have got to maintain capacity.

Can you respond to that?

Mr. SCUSE. As I said in one of my earlier remarks that we believe that this mission area, all three agencies do provide a safety net, a critical safety net for our farmers and ranchers throughout the United States, whether it be a loan program or the other programs administered by the Farm Service Agency, the Risk Management Agency and the crop insurance they provide or the great job that Foreign Agricultural Service does.

Mr. BISHOP. Let me interrupt you to say that the farmers have given good reviews on the last Farm Bill. But if we go and tamper with it, you know, something that the farmers think is not broken, other than the deficiencies, the fraud, waste and abuse and the overpayments, that type of thing, it seems to me like, you know, we are fixing something that is not broken.

Mr. DOLCINI. Mr. Bishop, I do have some good statistics to report on that very question. You know, you acknowledge the 14 percent goal. FSA has exceeded that goal over the last several years and we have gone from about 16 percent in 2007 to about a little over 19 percent last year.

I mentioned to Mr. Farr that, you know, we have done a good job in California and I think a lot of States can take a lot of credit for really going the extra mile when it comes to reaching out to farms and ranchers in our loan programs and our farm programs. But we will get back with you on the specifics of those other States, sir.

MARKET ACCESS PROGRAM (MAP)

Mr. KINGSTON. Mr. Brewer, I wanted to ask you about the MAP program because there was an amendment on the floor to eliminate it and our committee defended it on a bipartisan basis but, you know, the $200 million has been called corporate welfare, and I am not sure how much longer we can defend it. But you also have the National Export Initiative, $20 million. And I am not sure where those two overlap and what we can do to help MAP year after year.

Mr. SCUSE. Can I start while the Administrator, you know, gets his paperwork?

Mr. KINGSTON. Yes.

Mr. SCUSE. The MAP program and the Foreign Market Development Program both are extremely important, and here is a number that I hope will help you defend these programs.

These two programs, our data shows that for every dollar that is invested in these programs there is a return of $35.

Mr. KINGSTON. Well, and I am going to have to interrupt you on that. You know, all programs say that. I mean, if you were in our desk for one day you would have five groups from health care to education, whatever.

Mr. SCUSE. That are going to say the same thing.

Mr. KINGSTON. And that is the problem. And some of them are true, and I do think you do have an investment issue here.

Mr. SCUSE. Congressman, look at our results. I mean, look at 2008 and the record imports that we had in 2008 of—or exports, I am sorry, of $114.9 billion and you look at our exports this year projected at $135.5 billion. I mean, we are exporting products. We are helping our farmers and ranchers, and we are helping offset this Nation's trade deficit.

So, you know, I think our numbers prove, and we have got the proof to back up those numbers.

Mr. BREWER. Congressman, if I could add just one thing, you are absolutely right about the programs saying that. But in the case of MAP, not only is the program saying that but the cooperators are saying that.

U.S. Grains Council has come out with their own study that is showing that for the amount, the investment that we put in there, they are getting $50 in return in investment. So it is not just the program saying that, it is the participants as well.

Mr. KINGSTON. Once you establish a bulkhead for a product in a country, do you withdraw the funding and move to another country and try it? You know, try to expand it or does it just become, okay, here is the floor?

Mr. BREWER. Well, the MAP program is sharing what we put in and our cooperators put in as well. We followed the strategy and we worked closely with them and worked with their strategy, industry strategy of where they feel they need to be. And so that is how the movement goes primarily, is working closely to find out what markets are strong for their products.

Mr. KINGSTON. Politically speaking, we hear from the Washington people only, not from the folks back home on MAP and we don't ever hear from them until Jeff Flake or somebody offers an amendment to cut them.

I look at programs like that very suspiciously because, you know, if we are not hearing it from the grassroots and we are not hearing it year around, and if we can't see it or feel it or touch it, which we can't, it is just—I think that your signal to them right now should be MAP is in trouble.

Mr. BREWER. Sir, interesting you should say that. And I have got good news for you, because two of our latest cooperators are actually from Georgia, the Georgia Pecan Growers and the American Biomass Trade, both located in Georgia, are new cooperators, participants in MAP. And I will make sure to get the message to them that they need to make a little bit more noise, because I am certainly hearing from them and to the value that the MAP program is providing.

Mr. BISHOP. So am I.

Mr. BREWER. So I will make sure that they need to step up and reach out to you. And I will tell them that you said hello and that they need to reach out to you.

Mr. KINGSTON. Yes. Well, tell them that Mr. Flake says hello, too.

FOREIGN AID

Okay. You know, the national objectives to foreign aid—and you and I have talked about in a little bit.

Mr. BREWER. Sure.

Mr. KINGSTON. But, you know, you did have the goodwill aspect from Cold War left over. You had the development from the 1949 Truman Doctrine saying we are going to help undeveloped countries, and then there was the surplus food—we don't have surplus right now, correct? And then to develop export markets. You know, with MAP, with free trade agreements and the money, we kind of have number four handled. I think if Truman was alive today and looked at what we have gotten for foreign aid, billions of dollars and many years later, I think he would have to say we haven't done anything. And I am not even sure about the goodwill. Do you feel like we get goodwill?

Mr. BREWER. Sir, let me again, as I heard your question.

Mr. KINGSTON. My time has now expired. Here is what I am going to do. I will come back. You are going to tee it off with that. Just write that down. We will have our continued dialogue about it.

Ms. DeLauro.

DIRECT PAYMENTS BY STATE

Ms. DELAURO. Thank you very much, Mr. Chairman.

I would like to make a request. I would like to get a list by State of the direct payments that we put out. I don't know if there is a way to identify who is getting direct payments. That may be proprietary information.

But to the extent possible, what I would like to do is to know about those direct payments and, again, because—and I say this to my colleague from Georgia, this is a payment regardless of risk that is involved and it doesn't mean crop loss. It doesn't mean decline in price or anything else, which I understand. That is a different system. But the direct payment system is one that I think we need to take a hard, a hard look at.

Let me just ask a couple of questions on just the cuts that are forthcoming in H.R. 1, depending on what happens.

Well, anyway, the bill that was passed in the House in two areas, the FSA and in FAS. You have FSA, 2,200 county offices, 50 State offices, a large number of mandatory discretionary programs.

FUNDING REDUCTION IMPACTS

According to USDA, funding at the 2008 level would result in at least a 39-day furlough for all FSA employees. In return, that would result in delays in processing payments and loans. After the proposed cuts in H.R. 1 become law, how many FSA employees would have to be furloughed and for how long? If you don't have that answer now, I would like to get that answer.

How many local county offices would close? All of them? If these offices are closed, where would farmers go for information about their payments, loans or disaster assistance? And would the cuts result in delays in processing payments and loans?

Comparable to FAS, you have got 100 overseas offices, a major mission is to facilitate the export of U.S. agricultural products; 2011 budget proposed a $54 million increase for export promotion activities as part of the administration's NEI. It also included $14.6 million, as you pointed out, for reconstruction, stabilization in Afghanistan, Pakistan, Iraq and Haiti.

If the proposed cuts in H.R. 1 become law, how many employees would have to be furloughed and for how long? Would it lead to closure of some overseas offices? How would the cuts impact the agriculture reconstruction and stabilization work in Afghanistan, Pakistan, Iraq and in Haiti?

WORK IN AFGHANISTAN

I just mentioned to you that I came back from Afghanistan. I was there last weekend. And I will just tell you that the people that I met with, agricultural team OIC, USDA, Eric Grant, USAID Afghanistan. I met with the minister in Laghman Province who deals with Ministry of Agriculture, Irrigation and Livestock and the parliamentarians that have jurisdiction over the agriculture section, an area I was particularly interested in from several points of view.

One, I want to know what we are doing and what the production piece is. And, by the way, I would compliment your folks as well. These are people who came to me while I was there saying do not cut back, whether it is USAID or USDA, because we are beginning to take root, no pun intended here.

And the other piece for me is how integrated women are becoming into the farming efforts as well because the world's farmers are women.

And I also asked, what are we paying for? I would like to know what we are paying for. They do not need tractors. They need basic farming tools to teach people basic agricultural training, to make the land more productive and sustainable, and how that, in fact, what we will leave when we do leave, which we need to transition as quickly as we can so that they can, the Afghans can take care of themselves, in my view.

But that is why the importance of understanding what these cuts mean overall. So I would like to get that data and that information from you as quickly as possible before we move further on what these cuts are going to be, whether it is for April 8 or beyond, where we are going to be in terms of these efforts and the FSA piece as well.

DIRECT CONSERVATION LOANS

I would just reinforce the loan issue. I have a couple of questions about crop insurance, but maybe I can do those for the record. I don't know how long we are going to be here. But to support my colleague from Georgia here on the direct conservation loan program, I would just lay out these questions, because zeroing out the direct loans skews the program to larger loans, larger operations away from those who have the most difficult time securing credit to begin with.

Has the Department done any analysis on how it would fulfill their priority mission contained in the Farm Bill if it did not have direct conservation loan funds? Do you have an analysis of which categories of borrowers would and would not get funded with a single guaranteed loan option, and what is the justification for having both the direct and guaranteed loan options for farm operating loans and farm ownership loans, but having only one option for the conservation loans?

And I will get those to you in terms of answers for the record. Thank you, Mr. Chairman.

Mr. SCUSE. Thank you, Congresswoman.

[The information follows:]

State	Crop Year 2010 Direct Payments
Alabama	$33,846,377
Alaska	75,381
Arizona	25,257,822
Arkansas	189,083,849
California	105,646,796
Colorado	56,757,647
Connecticut	456,368
Delaware	3,744,650
Florida	8,349,597
Georgia	78,501,194
Idaho	33,709,388
Illinois	264,487,937
Indiana	144,848,221
Iowa	318,787,299
Kansas	246,862,540
Kentucky	36,636,872
Louisiana	92,570,739
Maine	738,054
Maryland	14,185,827
Massachusetts	287,146
Michigan	59,138,979
Minnesota	208,233,601
Mississippi	93,951,608
Missouri	130,833,903
Montana	72,448,282
Nebraska	186,497,866
Nevada	489,950
New Hampshire	255,269
New Jersey	2,216,394
New Mexico	13,201,740
New York	20,865,068
North Carolina	53,430,137
North Dakota	144,904,751
Ohio	113,149,274
Oklahoma	66,875,518
Oregon	17,228,131
Pennsylvania	18,708,954
Rhode Island	12,406
South Carolina	21,595,710
South Dakota	86,883,387
Tennessee	39,792,111
Texas	306,224,023
Utah	4,964,800
Vermont	$1,426,800
Virginia	18,892,320
Washington	29,853,170
West Virginia	1,477,378
Wisconsin	79,869,047
Wyoming	5,534,441
Total	3,453,788,722

Note - Direct Payments are for Crop Year 2010 which includes payments made during FY 2011.

State	Crop Year 2010 Average Crop Revenue Election (ACRE) Direct Payments
Alabama	$25,701
Arkansas	3,722
California	3,553,876
Colorado	2,799,898
Delaware	745,268
Idaho	10,453,776
Illinois	71,579,678
Indiana	22,317,857
Iowa	54,337,356
Kansas	6,994,447
Kentucky	6,077,760
Louisiana	96,523
Maine	7,356
Maryland	233,724
Massachusetts	42,923
Michigan	7,018,440
Minnesota	21,033,405
Mississippi	189,372
Missouri	8,654,352
Montana	7,906,719
Nebraska	55,576,587
New Hampshire	640
New Jersey	4,588
New Mexico	285,033
New York	740,455
North Carolina	248,573
North Dakota	24,604,075
Ohio	11,165,868
Oklahoma	25,011,575
Oregon	4,291,016
Pennsylvania	662,491
South Dakota	28,216,059
Tennessee	630,492
Texas	2,327,809
Utah	187,316
Vermont	192,389
Virginia	261,312
Washington	20,585,745
West Virginia	4,022
Wisconsin	5,701,501
Wyoming	63,021
Total	404,832,720

Note - ACRE Direct Payments are for Crop Year 2010 which includes payments made during FY 2011.

USDA has over 50 advisors in Afghanistan's provinces and districts who work alongside Afghan farmers on various soil quality, irrigation, animal husbandry and plant issues, specifically to help farmers increase their crop yields. In part due to higher yields, Afghan exports of dried and fresh fruit jumped 22 percent. USDA is also assisting the Ministry of Agriculture, Irrigation and Livestock (MAIL) in improving its extension service by pairing USDA experts with district and provincial extension agents, who work directly with the farmers on improving productivity. This summer, U.S. land-grant universities will develop training modules and educational materials for agricultural universities, vocational high schools and technical institutions to educate Afghan extension agents. In November of 2010, to respond to Afghanistan's problem with stem rust and its impact on wheat production, USDA partnered with the U.S. military to send UG99 wheat stem rust-resistant seed to replenish Afghanistan's wheat seed stocks.

Women make up 44 percent of farmers in Afghanistan, but remain largely invisible due to cultural mores. Five of our USDA agriculture advisors in Afghanistan are female, and they are assisting Afghan women farmers with small animal husbandry, fruit tree and saffron production, bee-keeping, and kitchen gardening, to name a few areas. Our extension advisor at MAIL will be female, and will tailor programs for women in our upcoming $15 million extension program. From 2003 to date, FAS has programmed over $230 million of food aid programs in fifteen provinces through the McGovern-Dole Food for Education and Food for Progress programs, and women and young girls are direct beneficiaries of literacy, agriculture production and nutritional health programs funded through those programs.

Direct USDA appropriations cover all Washington-based costs for mission support, policy development and program operation for Afghanistan. Specifically, Washington-based personnel are responsible for recruiting all USDA agricultural advisors, obtaining and completing the necessary clearances and training, and managing all human resource needs during and after deployment to Afghanistan. In addition, FAS staff actively participate in interagency policy development and are uniquely responsible for program management, oversight and evaluation of $86 million in agricultural capacity building projects across Afghanistan and within the MAIL. These projects, which are funded by USAID, focus on change management, crop monitoring, extension and water management. In Afghanistan, there are currently over 50 USDA agricultural advisors working in the field, in MAIL, and in the embassy. Salary and associated costs for up to 14 positions are supported with direct USDA appropriations; and salary and associated costs for all additional positions are funded through budget transfers from the Department of State. Separately since 2003, FAS has funded over $230 million worth of food aid through McGovern-Dole Food for Education and Food for Progress programs in Afghanistan. USAID and the military provide more direct assistance such as seeds and tools.

Mr. KINGSTON. Thank you.

Mr. Brewer, the floor is yours.

FOOD AID PROGRAMS

Mr. BREWER. Okay. Thank you, Congressman.

I think what I wrote down is why do we still do these food aid programs? I think that is the gist of your question.

The bottom line, we strive to promote self-sufficiency in the country that we work in and work with sustainability, self-sufficiency. These are things not only in the interest of the country that we prioritize, that we work with, that we—part of our tool kit is food aid, that we do. Sustainability is something that is just extremely important. It helps us in our trade area, it addresses our trade interests, it addresses our humanitarian concerns. It addresses our concerns about women and education and just those issues are in their interests and in our interests.

PERFORMANCE METRICS

Mr. KINGSTON. Do you have a metrics that shows progress? One of the things that we had last year, very telling, we had the GAO in and asked them which NGOs were effective and they did not have an answer. The reason they did not have an answer is they did not have a clear signal as to what we were trying to accomplish.

And one of the criticisms is, I think is a solid criticism, on our foreign policy, particularly as respects the Middle Eastern war is well, what are the metrics of progress and what is the vision here? And I think the vision is cloudy and the results are a little cloudy. You know, it has been suggested that, well, we get friends in there looking at the Sudan. And one of the things I am always interested in is Sudan votes with us 10 percent of the time in the U.N. But they get $569 million in Public Law 480.

Ecuador gets zero in Public Law 480, and they vote with us 25 percent of the time. So they are doing better and they don't get anything from us.

Bolivia gets zero and they vote with us 30 percent of the time.

Togo gets zero and they vote with us 46 percent of the time.

Colombia votes with us 60 percent of the time and we are not moving on a free trade agreement with them, which is a huge problem in Colombia and Panama and in South Korea right now in terms of if we want to make friends in three countries, there is three countries right now that we are really disappointing.

Nambia gets zero and they vote with us 27 percent of the time compared to Ethiopia, which votes with us 17 percent of the time and they get $413 million in aid.

So, you know, the argument promoted not necessarily by USDA, but by State Department as we get friends, we get goodwill. There is no result in that that you can see in the U.N. Voting record. It would be, I think, helpful to us if in your discussions with the State Department that you say, hey, look, what is the deal on this, because our constituents use this voting record as a way to figure out who our friends are and who our friends aren't.

And the voting record really, the information that goes into it needs to be changed or modified because this isn't a fair picture, I don't think, when you say Ethiopia is with us 17 percent of the time. I know that they are with us more than that on things that are of our interest, but this is where our constituents are going to go, and that is why some of the polling numbers that we have right now say the number one thing you should cut is foreign aid, you know, and foreign aid is a small percentage of the budget but it is enormously popular in terms of all the problems of the world in terms of cutting spending.

You know, stability, the Ivory Coast right now is possibly going to have a civil war or very close to it right now. We have foreign aid to them, but it hasn't helped in terms of stability.

Here is an interesting one. Nigeria doesn't get Public Law 480 money. They vote with us 63 percent of the time, which I am not even sure if that is accurate. We will have to double-check that one.

But I really feel very strongly that we have to have metrics. We go look at these programs and the typical approach to charity is kind of a celebrity in charity. Oh, I am going to come here because I am from the West, and I am going to feel real good and I am going to give the villagers some food and I am going to walk back and my halo has never shined brighter. And, you know, 20 years down the road nothing has happened.

I was in Zimbabwe once, I think I told you this, looking at a small plot of food. And, Rosa, this is something that I think I mentioned to you, seven NGOs in the backyard of a guy who had a yard smaller than this room teaching him how to plant tomatoes and lettuce and all that.

And I would say you know what, the folks in Zimbabwe aren't that dumb and they are not that dependent. What you have done is you have kept seven NGOs busy and all the people who come over there feel good about themselves, but you are not helping this.

And the irony is right across the street, if you call it a street, was a guy who had a little barber shop going. And he had generated electricity because, as you know, they don't have electricity all the time. And he was cutting hair out in his yard and he had a chair and he had a little mirror up on a tree. And he had a little bamboo kind of room that people walked in. And I thought that is the guy you ought to be helping. He is the entrepreneur. He is the guy who could go out there and create jobs.

He doesn't get a nickel of it and the other guy has seven NGOs in his backyard banging into each other of college students who were telling him how great he can be. I have a feeling he knew how to plant tomatoes. And that is something that haunts the heck out of me, especially coming off the book "Dead Aid," which if you haven't read, I am hoping you will. If you haven't, I will send it to you. Have you read it?

Mr. BREWER. I have not read it.

Mr. KINGSTON. My time has expired. I will get back to preaching with you in a minute. You and I have had these conversations before. We are going to continue to.

Mr. Farr.

AGRARIAN REFORM

Mr. FARR. Well, Mr. Chairman, I will just follow up on it. I was a Peace Corps volunteer in Latin America. And all of the countries that we are dealing with that are sort of at-risk issues are agrarian countries and we have got—it seems to me interesting to be talking to Mr. Brewer some day that we have got this conflict where we want to make the world dependent on our food and that is why we set up these great export programs and loan people money to buy food from us. At the same time in order to stabilize these countries, we are going to have to get them to grow food that is going to sell in the world market. Yucca, there is not a lot of—there is not a world demand for yucca, which is the staple of Colombia, but so and I don't think you are going to stabilize these countries until you can get their agrarian section in productive agriculture. And some of that—a lot of it is they don't necessarily grow the products that we grow and certainly aren't going to grow it to—but we are not going to get papayas from many places in the United States nor bananas nor coffee or any other kinds of things that we import.

So it is about getting the people who can be on the ground who can speak the language and, first of all, see if the farmers even want to grow this stuff. You can't make people grow something they don't want to grow. They are not going to be good at it. And if it is for their own market, we have all these cultural biases about food. So first thing I learned is it is really hard to change cultural habits about eating. We can see that in how Americans have to struggle with dieting. But just try to deal with other countries who don't even want to eat the crops that we grow. So it gets down to the ground in how we have the right kind of people. And I just hope that our foreign aid presence evolved really ought to be in agrarian countries, as Mr. Kingston is saying and Ms. DeLauro talked about and Mr. Sanford. It needs to be almost a lead agency. Diplomacy is not what is going to bring these countries to some kind of economic stability. It is going to be in agrarian reform that allows people to have ownership of land and they can go out and start financing their land like everybody else. Small farmers can become very successful. You don't necessarily have to have a big corporate farm to be successful.

So I would hope that we use our limited dollars a lot smarter and leverage with other Federal agencies. They need us more than we need them. Now, if the military recognizes that economic development isn't going to begin just by the military. It is going to begin by, as General Abizaid said, an ag expert.

MARKET PROMOTION

Anyway, one of the things that I would like to just ask is our market promotion, you said it is essentially—we are in about five major export markets. Is Mexico one of those?

Mr. BREWER. I am sorry, sir, five major——

Mr. FARR. You are reducing non-trade barriers in five major export markets, increasing agriculture exports by $2 billion per year. Is Mexico one of them?

Mr. BREWER. Yes, sir. I believe it is one.

Mr. FARR. It is the number one trade partner with California. Because I am very interested in how you do that. A lot of it has to do with border issues, inspections. We are trying to get a lot of product over there as fast as possible because it is all fresh stuff, the same thing getting—we have a lot of California growers who are growing in Mexico and will continue to do so particularly with labor issues and being able to get Mexican labor here. If we can't get Mexican labor in the United States then the United States is going to go hire Mexican laborers in Mexico. The biggest tomato grower in the country is now all in Mexico. They have abandoned its U.S. investments.

TRADE WITH MEXICO

Mr. SCUSE. We meet with the Mexican Government through the Consultative Committee on Agriculture—CCA—to look at barriers and how to work through some of the issues. You know that there has been an issue with Mexican trucking and the tariffs that were put on. The administration has worked very hard with the Mexican Government to resolve that situation, and we look forward to that being resolved in the very near future. But we continue to have dialogue with the Mexican Government just like we do other governments where there are issues or barriers that are preventing our products from getting into those countries. So we continue to have the dialogue and open up—hopefully open up some of those markets.

Mr. FARR. I think what you are hearing from us as a committee is, if you are going to deal with cuts, and there are going to be other members of this committee who want to cut across the board, we need to know what the impacts are going to be, particularly if this is so fundamental to our foreign policy, our trade policy, our relationships with our NAFTA partners and hopefully our partners in FTA and others. I think the Ag Department may be able to have a better voice here on the Hill than the State Department on those issues.

Mr. SCUSE. We need that ability to have that dialogue with those countries that have barriers in place so that we can go through those and increase our trade or reopen some of the markets that have been closed to us.

Mr. KINGSTON. The gentleman's time has expired, but I do want to say I think on the truck issue that the people who are directly involved in it need to be talking more about it far more than the MAP beneficiaries because it is a huge issue and it is so important to our friends and neighbors in Mexico that this thing work. But if we want to help Mexico and these South American countries get away from—having a little more independence from the drug cartels and some of the other things that are hurting their economy. That is one of the ones that really is so important to Mexico. But we don't hear from constituents on it. Now you might in California.

Mr. FARR. Yes, I do.

Mr. KINGSTON. But we don't hear what I think we should be hearing.

Mr. Bishop.

Mr. BISHOP. Thank you very much.

FSA STAFF REDUCTION

Let me just move to the FSA employment reduction issue. FSA is projected to execute a structured buyout of 504 Federal employees to meet a proposed 10 percent reduction of the Federal workforce in fiscal year 2012, which is expected to lead to a net $27 million reduction in salaries and benefits in 2012 and a total savings of $174 million through 2015.

I am more interested in the rationale and the plan behind the proposed reduction of the 504 employees. Can you share with us on a regional basis where the reductions will occur around the country, and if you don't have the information can you submit it for the record by region and by State?

Can you tell the subcommittee if the agency also proposes to reduce the number of FSA State offices concurrent with the reduction of the 504 employees and, if so, how many and where, which States? Are there any levels that are targeted staff performance goals in terms of loan servicing by program and other related goals and objectives by State and by individual offices, and will those objectives need to be modified if there is a reduction of the 504 employees pursuant to your plans?

Mr. SCUSE. Thank you, Congressman.

We are not proposing in that to reduce or close any State or county offices. Let me start by saying that.

Mr. BISHOP. That is good news.

Mr. SCUSE. I knew it would be.

We are looking at our Federal staff that is here in Washington, D.C. as well as other Federal offices, Kansas City would be another example of where we have Federal staff that we need to look at the jobs that are being done and how we can downsize government and be more effective and make it more cost effective. So we are going to be looking at all of our Federal agencies other than those that are in the State and county offices to get this reduction of 504 which, as you mentioned, is 10 percent of our workforce.

Mr. BISHOP. Thank you. I appreciate that very much because I am particularly concerned with the ground level where the rubber meets the road in terms of the delivery of services and the mission of your agency and the convenience, the customer-friendly operation of those offices is very, very vitally important to the folks in our area, particularly throughout the Southeast and in my district and in Georgia.

So that is a very, very serious concern to me, and I appreciate your comments there because there is lot of angst right now about the possibility of offices being closed or consolidated which will hamper even with the budget cuts, particularly with budget cuts, the ability of your customers to access the services that the agency provides.

Mr. SCUSE. Mr. Dolcini has something he would like to add.

Mr. DOLCINI. We are engaged in looking at the series and classifications of these Federal positions and where they would be easiest to achieve.

But Mr. Bishop, I just want to echo your comments about the dedicated county office staff around the Nation. When I came to Washington, I had managed 30 county offices and about 200 employees in the State of California to a network of 2,248 county offices with roughly 15,000 or so Federal and county office employees. These are the men and women who for the last 7 or 8 decades have delivered farm programs across the counter to the Nation's farmers and ranchers. And I was telling Mr. O'Brien that most FSA county offices are like coffee shops in many respects. You go to talk with your fellow farmers and ranchers to learn a little bit more about local agricultural issues. They really perform an essential service throughout rural America.

So I appreciate your comments.

Mr. KINGSTON. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman. I am going to submit questions for the record on crop insurance and the issue of improper payments.

CROP INSURANCE ERROR RATE

Mr. KINGSTON. If the gentlewoman will yield. Is this your last question?

Ms. DELAURO. I am going to wrap up.

Mr. KINGSTON. I think you might want to throw something at Mr. Murphy. He has had a free ride, and he has been sitting there.

Ms. DELAURO. But I am going to submit them for the record because I want to make another point, and I know we have gone over the time already.

Two North Carolina farmers this week were sentenced for their part in a multimillion dollar crop insurance fraud scheme. Earlier this month a California farmer was found guilty of defrauding the Crop Insurance Program, faces 30 years in prison and a million dollar fine. And I understand the $6 billion saved, $4 billion, there is $2 billion that also in fact does add to the baseline of the Farm Bill, which we are going to deal with next year. I will put that aside for the moment.

But I will submit my questions with regard to the budget cuts, your ability to improve quality control, reduce improper payments. And while the error rate for crop insurance is 5 percent, it is higher than the error rate for the nutrition programs, which is 4½ percent. And what are some of the measures that you are going to be taking to reduce the error rate.

FOOD AID PROGRAMS

I would like to just get back and I will wind up with this. This is on the foreign aid issue and the food aid programs.

What we do is we feed starving people, and it is based on need. I suspect that these starving people haven't any idea how many times that their government votes with the United States or not. And yes, we do this because it has to do with regional stability, which is a reality. And I think our defense people would be the first to talk about regional stability and food aid programs.

Mr. Kingston and I have talked about this a lot, so we are friends underneath all of this that we get engaged in here. But he often brings up the book that was written by Dambisa Moyo from Zambia, Ph.D. In economics, and she talks about the book is what, "Dead Aid."

But I will say that what she does is that when she talks about foreign aid, Ms. Moyo said that she means systematic bilateral or multilateral aid. On page 7 of her book she says, “This book is not concerned with emergency and charity-based aid.” She is concerned that these types of aid can encourage the view that all aid is good. She recognizes they are comparatively small efforts and that emergency aid in particular has, “obvious and fundamental merits.”

Food for Peace is largely an emergency program. The World Food Program is an emergency program and we have found many times over that of nations who have been the recipients of aid during a crisis have become donor countries when they are out of that crisis and there are other areas of the world that need that help.

McGovern-Dole she talks positively about foreign aid programs that she calls conditional cash transfers and provided only if the recipient does some specific good thing. He or she, and it is mostly “she” attend school regularly. If you saw the faces of those little girls in Afghanistan and what that education means to them and their families sending them because there is a food component. Otherwise these little girls do not get the advantage of being either educated or fed.

So her criticisms do not apply to McGovern-Dole or to most of the Food for Peace. It is important to recognize that when we do talk about aid.

I would also add that she strongly criticizes farm subsidies in the United States and in the European Union, particularly—and it is not pointed in any direction—cotton and sugar subsidies, making it impossible for African farmers to compete in the global marketplace. And I have her words here. America’s cotton farmers receive more in subsidies than the entire GDP of Burkina Faso, three times more in subsidies than the entire U.S. Aid budget for Africa’s 500 million people.

I could go on. Sugar subsidies hurt Africa. OXFAM estimated that the regime has deprived Ethiopia, Mozambique, Malawi in potential export earnings. So we need to talk about the aid and look at it in its broadest perspectives of what we do with the food aid that we provide and today, quite frankly, we are providing it on an emergency basis.

SUSTAINABILITY

One of the things we are trying to do in Afghanistan and other places with USDA presence and with USAID presence is the opportunity for these farmers to become sustainable, that their land becomes more productive with some of the talent that we have. That is what Norman Borlaug was all about and what we fund in this bill. So that in fact they can raise their productivity, feed themselves so that we can lessen what we do here. But it has a regional stability that we can not buy anywhere in terms of our own security.

Mr. KINGSTON. Now if I were a smart aleck, I might say like in Rwanda or the Ivory Coast, that kind of stability.

Ms. DELAURO. Ivory Coast is a different entity.

Mr. KINGSTON. What about Rwanda? What about Afghanistan? They got food aid before 2000. $73 million.

Ms. DELAURO. And quite frankly, we should have done more about Rwanda than we did at that time and I hope we have learned some lessons from Rwanda.

Mr. KINGSTON. I do, too.

Rosa, you are finished? Mr. Sanford.

Because I do want to take another round and I might respond to some of this.

FOOD AID INCENTIVES

Mr. BISHOP. In conjunction with the line that the gentlelady just finished, with regard to our aid having conditions attached to it, I would like to put it in the context of our global competitor, China, that is engaging in aid all across the globe now, particularly in Africa where they give their aid without any strings attached. So it places us in a difficult competitive position to try to attach strings and requirements and conditions upon some of the aid that we give to these countries in Africa if we want to generate goodwill, which obviously we want to, and create stability, which obviously we would like to have. But to do it by the carrot-and-stick approach with the incentives as conditions when we have got China on the other hand with a pocket full of money, not experiencing the kind of budget shortfalls that we are, and they are giving their aid without any strings attached at all.

How do we deal with that?

Mr. BREWER. Should I respond to that rhetorical?

Mr. BISHOP. In the context of some of the suggestions that Ms. DeLauro was making.

Mr. BREWER. Congressman, I think, again, I don't want to compare our way of giving aid and our values and why we have done it to China because we have given much more than China. I mean, according to statistics from World Food Program we have given 41 percent and they give less than 1 percent. So I mean we are getting the job done. We are clearly showing the value and the importance we give on this.

Certainly for the effectiveness of our programs, again as I said earlier in response to an earlier question, our three major food aid programs have specific purposes behind them. And so to not have a strategy or incentives in which to graduate and which to go for economic development, et cetera, kind of defeats the value of the program. So there is merit to that. But I understand what you are saying.

Mr. BISHOP. I agree with you. There is merit and obviously we would like to encourage certain behavior and would like to utilize our help as an incentive to encourage that behavior. However, it makes it much more difficult when we have another actor in the global scene, the global neighborhood that is giving out the goodies without strings attached. And to that extent, it creates friends where we may be losing our influence.

And apparently at the escalating pace that is developing with the Chinese involvement now nationwide and our beginning to look at pulling back, particularly with our budget crisis, it seems to be putting us in a less competitive situation going forward.

FOREIGN AID

Mr. KINGSTON. All right. Are you finished?

Let me say this. I think, number one, I think it would be good to have a hearing just about foreign aid in terms of USDA. I think that would be helpful.

Also, I am in agreement with emergency aid. However, I would argue that on your tenth year, it is not emergency aid. Ethiopia was mentioned, I think, 11 times in the Old Testament; it is one of the oldest countries in the world. When I lived there, the population was 14 million. Today it is 80 million. And I think that there is a certain view in the West that, oh, well, we are coming here, we are going to feed you because we feel guilty about ourselves and you are undeveloped still and you can't take care of yourself. You know, the example in the book, and I am hopeful you will get past page 7. But I am very glad that my good friend has that book. I want to sign it for you. I am going to give one to Mr. Brewer, too.

Ms. DELAURO. I don't think I will pay any attention to what you say.

FOOD AID AND ENTREPRENEURISM

Mr. KINGSTON. I am glad you are reading good literature. But it gives an example of okay, you are in Senegal, and I have been to your guy there on the ground, his name is David something, absolute champ of a guy. We went out to a feeding program, and by the way, where did it go—we used to have our stack of rice that we give. It is not called rice. Can't quite read it. That was something that this committee did. And to me I think it is nice that when you talked about the adventurism of China, for us to go into remote spots and see the package of food that says "USDA" on it, I think that promotes good will. But the example in this book was okay, you got a guy in Senegal and he has a mosquito net company and he's got five people and they are sitting around and they are making nets and they sell these nets for $20 each. Each of the employees has five or six dependents and so of the five employees maybe you could say there are actually 20 to 30 people who are living off the mosquito net business.

And then celebrity of the week comes through and says oh, they are having mosquito and malaria problems in Senegal. Why don't we dump on the market 200,000 free mosquito nets? Celebrity goes home feeling real good and makes all the right circuits, the cocktails, the halo again shining brightly. But what happens to that entrepreneur? We have killed him. What happens to those five employees? They are out of work. What happens to the 25 dependents? They are gone, too. We have an angle on a lot of our food aid, and I didn't really realize how strong it was until I got this gavel. And guess who is a big proponent because I have said why don't we do vouchers; if we really want to teach people how to fish, why don't we do vouchers? Suddenly do you know who is calling on me is American shippers. Interesting. I have been on this committee for many years. Never heard from them. Did you know they had such a dog in the fight? Did you know they were so involved with food aid?

Ms. DELAURO. They ship it, and it is by law they ship it on U.S. carriers.

Mr. KINGSTON. They are extremely charitable about it, and I know they ship it at cost. Isn't that right? How much do we spend for American shipping of this food aid? How much do you think it is? How much of your budget goes to shipping?

Mr. BREWER. I know in one of our programs we have $40 million—I think it is the Public Law 480 program, we have $40 million in Commodity Credit Corporation—CCC—funds that are for that. And then when that——

Mr. KINGSTON. How many programs have vouchers where you are actually doing what we are pretending to do, letting people become independent by giving them vouchers to create their own mosquito net type companies but for food?

REGIONAL FOOD PURCHASES

Ms. DELAURO. That is different than food. USAID was different, it is foreign aid. This is food aid. But your point is well taken because we had a pilot program, I think it is $25 million, to deal with this committee to look at how you dealt with regional purchases, et cetera. Now the next Farm Bill will be an opportunity to look very—I think you know, you are right. I mean, this is what the point is. Food aid is different.

INTERNATIONAL NEEDS

Mr. Kingston, if you are starving, there is, if you are starving for a year, you could be starving for 5 years. We have got places in the world where they are starving and it has been continuous. Do you say well, hey, the food aid is there for 5 years; you can starve after that. Because that is not the point.

Mr. KINGSTON. But the point would be for a country as old as Ethiopia that, okay, because of the Italians and the Nazis—I mean they had some real problems in Ethiopia with stability and okay, there has to be metrics that are moving folks towards this independence where they don't have to rely on American food.

Ms. DELAURO. Your book talks about Ethiopia and Malawi, et cetera, and says here is why cotton and sugar subsidies hurt Africa. This is OXFAM. Estimates that the regime has deprived Ethiopia, Mozambique of potential export earnings of $238 million since 2001.

Mr. KINGSTON. I am not here to defend cotton or sugar.

Ms. DELAURO. But I am just saying——

Mr. KINGSTON. And absolutely because I will up you one, too. Why don't we do—because Colombia, I don't know the product that Mr. Farr talked about, but they export the heck out of flowers and they will do a lot more with FTA which we can't seem to move. If we want to help Panama and Colombia right here in our own hemisphere, move the FTA.

Ms. DELAURO. Cuba.

Mr. KINGSTON. Oh, now you have gone too far.

Mr. BISHOP. With regard to sugar let me remind the gentlelady that charity does begin at home.

Ms. DELAURO. There are two sides of the argument.

Mr. KINGSTON. We are going to have my friend Mr. Brewer back and you might be the official Secretary at that point, so you can come back, too. I know you are looking forward to that.

Mr. SCUSE. I appreciate that.

Mr. KINGSTON. And we are going to give each other book reading assignments, and we are going to talk about it. But I have a concern, and I can tell you that the interesting thing about Ms. DeLauro and me is that we don't always vote, which you probably had no clue on this, we don't always vote together but when we start talking—what is scary—the closer we get to each other in terms of these things, and I can promise you that fair-minded people could come up with reforms on food aid that everybody could be happy about and go home and talk about proudly.

But I have great concerns of what we are doing to entire regions and continents. And I want to ask you one question.

SOUTH SUDAN

South Sudan, biggest country in the world, how long is it going to take us to get there? Anything on that? Any thought process on that? Now that one could be an emergency. I don't know.

Ms. DELAURO. South Sudan. You still have Somalia today. You mentioned the Ivory Coast. We have met with the AFRICOM people, the people who now have the military responsibility for looking at this area and what is happening in these places which are emergency situations.

Mr. KINGSTON. Well, with that, this hearing is—I don't think we really want you to talk. We were having a good time.

Mr. SCUSE. I want to thank you and thank the committee and the membership for the questions today. Very good questions. I know that we owe you some responses, but I want to thank you for the opportunity to be here and to meet everyone.

Mr. BREWER. I was going to say, your South Sudan question, whatever happens first it will be AID would go in on an emergency basis and we would follow based on the eligibility of our programs.

Mr. KINGSTON. Well, thanks a lot.

Mr. BREWER. We will monitor that.

Mr. KINGSTON. We will stay in touch with all of that, and the committee is now closed.

[The statement of Mr. Brewer follows:]

FOREIGN AGRICULTURAL SERVICE

Statement of John D. Brewer, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to report on the accomplishments of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs in 2012.

Introduction

FAS is the lead agency of the U.S. Department of Agriculture (USDA) responsible for addressing the challenges and opportunities of the dynamic global marketplace by: expanding foreign market access for U.S. products, building new markets, improving the competitive position of U.S. agriculture, and addressing food security and capacity building in foreign countries. FAS has the primary responsibility within USDA for international market development and export financing, trade agreements and negotiations, and the analysis and dissemination of vital market intelligence and data to agricultural producers and exporters. FAS administers food aid programs and mobilizes USDA's unique resources and expertise in agricultural development activities.

FAS relies on its global network of agricultural economists, marketing experts, negotiators and trade specialists both in Washington, DC, and its approximately 100 international offices that cover 156 countries. FAS attachés and counselors serving at U.S. Embassies are our eyes and ears around the world, providing the agricultural expertise to seize opportunities, by providing real-time information on emerging trade and marketing issues, and averting problems before they become trade barriers that impede exports.

At FAS, we are proud of our contributions to growing U.S. agricultural exports. Last month Secretary Vilsack announced that U.S. farm exports are expected to reach a record $135.5 billion in Fiscal Year (FY) 2011, eclipsing the previous record set in 2008 by more than $20 billion. Compared to FY 2010, export value is expected to grow by 25 percent and volume by 10 percent. With this forecast, the agricultural trade surplus is projected to reach a record $47.5 billion, far surpassing the previous record of $36 billion set in 2008. Agriculture is one of the few sectors in our trade portfolio where we consistently run a trade surplus.

These numbers are good news, not just for farmers and ranchers and the businesses and communities that support them, but for our nation's economy as a whole. Every $1 billion in agricultural exports generates an additional $1.31 billion in economic activity and supports 8,400 American jobs. Agriculture continues to play an important role in support of President Obama's National Export Initiative goal of doubling all U.S. exports within 5 years.

Market Access

With the global economy still emerging from recession, keeping markets open is a critical factor in continuing demand for U.S. agricultural products. In FY 2010, FAS efforts led to the reopening of the Chinese pork market and the Russian market for U.S. pork and poultry. FAS also finalized a new Memorandum of Understanding with China to help maintain the $10.8 billion market there for U.S. soybeans. Trade in soybeans to China alone accounts for about 9 percent of all U.S. agricultural exports. FAS prevented major new technical barriers for horticultural products and processed foods in Indonesia and Korea, both important and growing markets, and helped the U.S. cherry industry avoid major problems with shipments to Taiwan and Korea during the peak of their very short shipping season. Each one of the barriers that FAS helps break down has a real and positive benefit for U.S. producers as well as the overall U.S. economy.

In addition to addressing these specific trade issues, FAS works daily to keep the U.S. food and agricultural industry apprised of international developments to keep trade flowing. FAS enlists the Agricultural Technical Advisory Committees (ATAC) and the Agricultural Policy Advisory Committee (APAC) to gain insight from the private sector on issues affecting trade. This leads to informed, coordinated, and efficient government efforts in bilateral and multilateral negotiating sessions, in representing U.S. agricultural interests at international standard setting bodies such as CODEX, and in addressing industry regulatory concerns. Over the long term, these efforts reduce barriers to U.S agricultural exporters and establish certainty in the rules and requirements relating to trade, saving both time and resources.

Greater access to foreign markets for U.S. agricultural products requires an aggressive trade policy to lower tariffs, reduce non-tariff barriers, eliminate export subsidies, and reduce trade-distorting domestic subsidies. The pending U.S.-Korea trade agreement will have tremendous benefits for American agriculture by providing improved access to more than 49 million Korean consumers. A combination of tariff phase outs, new tariff-rate quotas, and regulatory harmonization will result in improved access to Korea's $1 trillion economy. Upon implementation, about 60 percent of Korea's present agricultural imports from the U.S. will become duty free. The Panama and Colombia trade agreements will also offer similar benefits for U.S. farmers once they are implemented.

Over the next year, FAS, in coordination with the Office of the United States Trade Representative, will work tirelessly toward a successful conclusion to the Doha Round of multilateral trade negotiations. FAS also is developing U.S. agricultural objectives for the Trans-Pacific Partnership (TPP) negotiations currently underway. By participating in these critical negotiations and monitoring and enforcing existing trade agreements, FAS advances U.S. agricultural interests overseas, increasing exports and supporting American job creation.

Trade Development

With 95 percent of the world's consumers living outside the United States, our farmers and ranchers must look overseas to expand sales and boost incomes. The agricultural sector is an important part of the President's National Export Initiative (NEI), and FAS' efforts to build, maintain, and expand foreign markets for U.S. food and agricultural products directly support the NEI.

FAS administers several NEI-critical market development programs, including the Foreign Market Development (Cooperator) Program (FMD), Market Access Program (MAP), Technical Assistance for Specialty Crops (TASC) Program, Quality Samples Program (QSP), and Emerging Markets Program (EMP). These programs provide matching funds to U.S. organizations to conduct a wide range of activities including market research, consumer promotion, trade servicing, and capacity building. Working with State Regional Trade Groups and other industry organizations, FAS outreach efforts focus on assisting small- and medium-sized enterprises to enter export markets and expand sales.

This partnership in market development programs provides a long-term commitment to meeting the needs of current and potential customers in foreign markets. FAS scrutinizes grant applications to ensure that U.S. producer associations develop their programs with extensive strategic planning, involve broad industry representation when appropriate, and identify their best prospects overseas.

The **Export Credit Guarantee (GSM-102) Program** administered by FAS provided credit guarantees that facilitated sales of $3.09 billion in FY 2010. This program encourages the financing of commercial exports of U.S. agricultural products under competitive credit terms by reducing financial risk to lenders for credit extended by U.S. banks (or less commonly, by the U.S. exporter) to approved foreign banks using irrevocable letters of credit for purchases by foreign buyers. The U.S. exporting community has the benefit of targeting over 100 countries included in GSM-102 allocations.

Food Security and Capacity Building

Food insecurity affects over 1 billion hungry people worldwide – a problem exacerbated by the global economic downturn. FAS and partner USDA agencies are active partners in the Administration's global food security initiative – Feed the Future – and we are working closely with the State Department, U.S. Agency for International Development (USAID), and international and multilateral organizations to further the Administration's objective of ending the root causes of hunger and building a foundation for lasting improvements in food security.

We recognize that food aid alone is not enough. Improving food security is also about increasing access to food through trade and in-country production. The biggest contributing factors to insufficient in-country production are chronic under-investment in agriculture, inefficient inputs, underdeveloped markets, and poor governance. FAS addresses these issues with programs both to provide U.S. commodities to developing countries and expand trade capacity in areas of need.

Food Aid

The McGovern-Dole International Food for Education and Child Nutrition (FFE) Program supports preschool and in-school food for education programs and nutrition programs for women, infants, and children in foreign countries. FAS programmed more than 126,100 metric tons (MT) of commodities through the FFE program to support programs implemented by the World Food Program and PVOs in FY 2010. About $181.5 million of assistance was made available through this program, benefitting more than 5 million children and women. This year, agricultural donations made possible by the McGovern-Dole Program will help feed 320,000 children in Haiti, where nearly 30 percent of the population suffers from chronic malnutrition.

The Food for Progress (FFPr) Program provided more than 200,400 metric tons (MT) of agricultural commodities valued at $96.4 million, and $49.8 million of transportation and other non-commodity costs in FY 2010. The program provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies that have made commitments to introduce and expand free enterprise in their agricultural economies. FFPr activities have included improvements to agricultural techniques and marketing systems, providing education to farmers, helping to develop cooperatives, supporting agribusiness and microcredit enterprises, and building the capacity to trade. Under a new 2010 3-year FFPr program in Mali the Aga Khan Foundation USA, a PVO, will receive 20,250 MT of commodities, valued at $11.5 million. Proceeds will be used to expand their agricultural, marketing, capacity-building, and micro-finance activities in Mali.

The Local and Regional Procurement Pilot Project provided $23.8 million through 13 programs in 12 countries. Authorized as a pilot program under the 2008 Farm Bill, the primary objective of the project is to use local and regional purchasing to help quickly meet urgent food needs due to food crises and disasters. In September 2010, Mercy Corps a PVO funded by this pilot project, provided 385 MT of food to drought-affected communities in Niger through direct distributions of locally procured food and vouchers for vegetable oil and salt.

Trade Capacity Building

FAS also works over the longer term to provide trade capacity building (TCB), or trade-related technical assistance that enhances developing countries' ability to increase their prosperity through two-way trade. TCB activities strengthen other countries' agricultural institutions and regulatory systems, encourage compliance with international norms, and foster adoption of U.S. approaches to agricultural policy and regulatory procedures.

The Cochran Fellowship Program (CFP) provided short-term training in the United States for 467 international participants from 68 countries in 2010. Cochran participants meet with U.S. agribusinesses, attend policy and food safety seminars, and receive technical training related to short- and long-term market development and trade capacity building. Although the training is short-term, the results of this program can have important, positive long-term benefits for the United States. Several of our Cochran alumni have gone on to become leaders in their countries, including most recently, the new Armenian Minister of Agriculture who was a 2001 Cochran fellow.

In its sixth year of existence, the **Norman E. Borlaug International Agricultural Science and Technology Fellows Program (BFP)** continued to expand, training 48 fellows in FY 2010. The BFP offers agricultural research fellowships for scientific training in the United States to individuals from eligible countries. The program helps developing countries strengthen agricultural practices through the transfer of new science and agricultural technologies, including those related to production, processing, and marketing.

Agricultural Development in Afghanistan and Pakistan is a critical part of the Administration's national security strategy in these countries. The primary non-military issue facing the region's stability is reconstructing the agricultural economy in Afghanistan and the Afghanistan/Pakistan border region with Pakistan to provide the people of both countries with legitimate means to earn a living. In Afghanistan, agricultural development plays an enormous role in economic development, as more than 80 percent of Afghanistan's population relies on agriculture to earn a living, with much of it in poppy production. There is a critical need for technical assistance to provide competitive alternatives to illicit crops, strengthen sustainable agricultural production, and address food insecurity in the region. USDA, working closely with the U.S. Agency for International Development (USAID), the State Department, and other federal agencies, plays a critical role in the effort to rebuild the Afghan agricultural economy, a cornerstone for sustainable economic development in the long term.

Since 2009, when Ambassador Karl Eikenberry and the late Ambassador Richard Holbrooke asked Secretary Vilsack for assistance in support of the U.S. Government's efforts, USDA has responded by providing experts and expertise. At State's request, USDA has increased its presence in Afghanistan to over 50 experts with skilled specialists on military Provincial Reconstruction Teams, highly-knowledgeable advisors embedded in Afghanistan's Ministry of Agriculture, Irrigation and Livestock, and seasoned Foreign Service Officers in the Office of Agricultural Affairs at the United States Embassy in Kabul.

Budget Request

Mr. Chairman, our budget proposals have been developed to ensure the Agency's ability to conduct essential activities and provide services that are crucial to the future prosperity of American agriculture. Our agency's greatest strength is our staff. From our agricultural counselor in Cairo who stayed at his post to ensure that trade would continue during the daily protests in the streets, to the trade officer in Guangzhou who is helping an inexperienced exporter navigate the intricacies of the Chinese distribution system, to our attaché in Dakar who helped implement a McGovern-Dole School Feeding Program that fed nearly 20,000 Senegalese school children, to a Washington, DC-based agricultural economist who provided the economic analysis necessary to make a sound policy decision, FAS staff make a difference. Our 2012 budget proposes a funding level of $236 million for salaries and expenses, an increase of $49 million above the 2011 Annualized Continuing Resolution level. The budget supports 1,006 staff years.

As I just described, FAS overseas offices are critical to carrying out the Agency's mission and providing essential support to U.S. exporters, as well as to the wide range of international activities carried out by USDA. The FAS overseas office network is affected by macro-economic events and escalating fixed charges, which increase basic operating costs. Budget increases are necessary to maintain FAS' overseas presence during 2012 and ensure a secure information technology (IT) network at our overseas offices so that our activities on behalf of U.S. agriculture can continue. In addition, we are requesting increased funding to expand export promotion activities and to support USDA's participation in reconstruction and stabilization activities in Afghanistan, Iraq, and other food insecure countries.

Specifically, the FY 2012 increases requested in the FAS salaries and expenses account include:

- An increase in discretionary spending of $20 million as part of the NEI. This additional funding will support: domestic outreach to small businesses who are new potential exporters; expanded activities in important foreign markets to showcase U.S. agricultural products and bring buyers and sellers together; and strengthened staff to monitor and enforce trade agreements.

- $9.3 million for increased operating costs at FAS' overseas posts. Of this, $7.6 million is for increased payments to the Department of State for administrative support services provided through the International Cooperative Administrative Support Services system. FAS has virtually no administrative staff overseas and must rely on the State Department and other agencies for the provision of those services.
- $4.0 million for the costs of transferring all FAS overseas offices IT network support and maintenance responsibilities to the State Department. This transfer will allow FAS to take advantage of the secure information system infrastructure that is operated and maintained by State and ensure that sensitive agency information is fully protected as required.
- $14.6 million to fund agricultural reconstruction and stabilization activities in Afghanistan, Iraq, and other food insecure countries. Of this amount, $13 million is moved from Departmental Management, where it was funded previously, because FAS has assumed full management of the operational and policy components of USDA's reconstruction and stabilization activities. FAS coordinates closely with the State Department, which sets overall operational and administrative policies. The amount requested has been increased by $600,000 for higher international inflation and administrative costs and $1 million to fund the FAS Country Strategy Support Fund for Fragile Market Economies. This fund supports projects and activities supporting Posts' Country Strategy Statement priorities focused on reconstruction, stabilization, and global food security in fragile market economies.
- $1.5 million to expand the Borlaug and Cochran Fellowship Programs. These programs

provide training and collaborative research opportunities in the United States for foreign agricultural researchers, policy officials, and other agricultural specialists, and thereby help to advance U.S. global food security and trade policy objectives in such priority countries as Afghanistan, Pakistan, and Haiti. Under our proposal, as many as 600 individuals will be able to participate in and benefit from these fellowship programs.

Export Credit Guarantee Programs

The Commodity Credit Corporation (CCC) export credit guarantee programs, administered by FAS in conjunction with the Farm Service Agency, provide payment guarantees for commercial financing of U.S. agricultural exports. These programs facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. The budget includes an overall program level of $5.5 billion for CCC export credit guarantees in FY 2012 as required by statute, provided sufficient budget authority is available to support that level. Of this, $5.4 billion will be made available under the GSM-102 program and $100 million will be made available under the Facility Guarantee Program.

Market Development Programs

Funded through the CCC, FAS administers a number of programs carried out in partnership with private sector organizations to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For FY 2012, the CCC budget estimates include a total of $256 million for the market development programs.

This includes $200 million for MAP, and $34.5 million for FMD, consistent with provisions of the 2008 Farm Bill. Similarly, funding for TASC at $9 million, and the EMP at

$10 million are also consistent with provisions of the 2008 Farm Bill. CCC funding also includes $2 million for the QSP, which is not a provision of the 2008 Farm Bill.

Dairy Export Incentive Program

Based on current market conditions and the competitiveness of U.S. dairy exports, the budget assumes that no DEIP bonus payments will be made in 2011 and 2012. However, should conditions warrant, CCC funding can be made available to the program up to the maximum annual level authorized under U.S. commitments to the World Trade Organization.

Foreign Food Aid

The United States continues to play a vital role in global efforts to alleviate hunger and malnutrition and enhance global food security through international food aid activities. USDA contributes to these efforts by carrying out a variety of food aid programs that support economic growth and development in recipient countries. In this regard, the FY 2012 budget includes a total of $2.1 billion for foreign food aid, including:

- $200.5 million for the McGovern-Dole program, which will assist as many as 5 million women and children worldwide in FY 2012.
- $1.7 billion for Food for Peace food aid grants through the P.L. 480 Title II program, which is administered by USAID, and which fosters economic development and provides emergency relief.
- $156 million for the CCC-funded Food for Progress program, which is projected to support approximately 180,000 MT of commodity assistance.
- $5 million for the Local and Regional Commodity Procurement Pilot Program, which the 2008 Farm Bill authorizes and provides CCC funding for a limited, field-based pilot program for local and regional procurement of food aid commodities to be distributed

overseas. Grants are provided to PVOs, cooperatives, and the World Food Program to undertake procurement activities.

Conclusion

I look forward to working with the Subcommittee to best help U.S. agriculture compete in export markets and support American jobs and to continue American leadership in addressing food security and capacity building in foreign countries.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions.

[The statement of Mr. Dolcini follows:]

FARM SERVICE AGENCY
Statement of Val Dolcini, Acting Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss Farm Service Agency (FSA) issues and funding. Our Fiscal Year (FY) 2012 budget emphasizes a service-oriented agency with a commitment to efficiency. We seek to improve program delivery by focusing on support for our county office staff and investments in crucial information technology (IT) modernization priorities, while streamlining our operating costs in an environment of constrained discretionary spending.

AGENCY OPERATIONS

FSA administers many of the programs authorized by the 2008 Farm Bill as well as programs under other authorities. We deliver these programs through 2,248 county level USDA Service Centers, 50 state offices, and an office in Puerto Rico. FSA has headquarters offices in Washington, DC, Kansas City, Salt Lake City, and St. Louis. At the end of FY 2010, the Service Centers were staffed by a total of 8,686 non-Federal and 2,251 Federal FSA employees working directly with producers. The total number of Federal employees working in state offices was 1,502 and the total in headquarters was 1,519.

Business Processes and IT

As you know, FSA farm programs rely on one of the oldest information technology systems within the Department of Agriculture. As the Agency looks to cut unnecessary operations and spending, but strengthen program delivery and provide for the most efficient possible service to producers, a stable IT infrastructure is critical. The

Committee has provided $117.3 million through the Recovery Act and the FY 2010 regular appropriation for our modernization efforts. The FY 2011 Continuing Resolution provides $67.3 million in base funding that enables us to continue these modernization efforts. This is critical support in view of the challenges the Committee faces during this time of budgetary constraint.

FSA's objectives are to (1) maintain and enhance the current infrastructure at a level that supports required operations, services and program delivery; (2) modernize FSA's IT environment to eliminate the reliance on outmoded technology; and (3) improve the quality, reliability and availability of data to more effectively support FSA programs.

Over the past year, FSA has successfully expanded the presence and effectiveness of web-enabled program delivery applications. FSA has deployed this technology to improve Direct and Counter-Cyclical Payments (DCP) and Conservation Reserve Program (CRP) payments, making the payment process faster and more efficient for producers and staff. In addition, FSA implemented web applications to support the Tree Assistance Program (TAP), Livestock Indemnity Payments (LIP), Emergency Conservation Program (ECP), Supplemental Revenue Assistance Payments (SURE), the Dairy Economic Loss Assistance Payment Program (DELAP) and the Emergency Forestry Restoration Program (EFRP). For example, a new web conservation payment system correctly issued one million CRP annual rental payments worth nearly $1 billion in less than two hours. In the 2010 crop year, electronic warehouse receipts for grain have been approved for a trial program for the Marketing Assistance Loan (MAL) program. FSA also implemented reusable common automated processes for direct attribution, payment limitation, eligibility, adjusted gross income (AGI) determination, entity and combined producer processing. The Natural Resources Conservation Service (NRCS) uses the FSA web services for similar applications to support the delivery of its programs. FSA also implemented central claims, receivables, and collections processing. All of these new systems are beginning to work in concert, giving our field staff more time to focus on producer service as opposed to payment troubleshooting.

In recent years, FSA has improved the operational effectiveness and efficiency of the Farm Loan programs through program streamlining and information technology initiatives. In FY 2012, FSA will transition all direct loan servicing information technology applications into a single, web-based application, allowing FSA to improve service to its delinquent and financially distressed borrowers.

Finally, FSA continues to make progress to the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project. In the fourth quarter of 2010, the MIDAS team completed the planning and requirements development phase. In 2011, MIDAS is continuing the system development cycle by designing and gathering information on requirements. For example, FSA is developing scenarios of various applications and then assessing the impact on business processes. Adjustments and prioritization of next steps and actions will be done to best serve FSA's Farm Programs mission priorities. In FY 2012, FSA intends to begin initial deployment of some applications.

PROGRAM UPDATE

Due to the high number of new programs authorized under the 2008 Farm Bill, during FY 2010, FSA delivered more programs to more farmers and ranchers than ever before. FY 2010 saw another year-over-year increase in demand for farm credit. While USDA is seeing the signs of broadening credit availability for producers, credit was still tight for many. FSA provided over $5.2 billion in loans to more than 36,000 farmers and ranchers across the country —an increase over last year of more than 2,000 farmers and ranchers and more than $700 million.

The regulations for the Conservation Loan Program were published September 3, 2010. This program will make or guarantee qualified conservation loans to eligible borrowers to cover the cost of carrying out a qualified conservation project. In the final month of FY 2010, FSA made more than 70 conservation loans totaling $4.5 million, and year-to-date, the Agency has made 75 such loans totaling $5.5 million.

Disaster Assistance

Since the beginning of calendar year 2010, FSA has delivered assistance totaling more than $3.3 billion to nearly 100,000 farmers and ranchers through the Farm Bill disaster programs, including the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP), Livestock Indemnity Program (LIP), the Livestock Forage Disaster Program (LFP), and the SURE Program.

Regulations for SURE were published December 28, 2009, and the signup began January 4, 2010, for losses during the 2008 crop year. Within the first 3 weeks, payments of over $870,000 were issued, and to date we have made payments of over $2.1 billion. Thus far, SURE program payments for losses during the 2009 crop year have totaled $35 million.

In 2009, FSA implemented the LIP and Livestock Forage Disaster Program (LFP) to aid livestock producers affected by 2008 and subsequent natural disasters, issuing a combined total of $347 million for 2008 and 2009 losses of livestock under LIP and grazing losses under LFP.

ELAP payments for 2008 and 2009 losses have totaled $22.4 million. Signup for the 2010 ELAP ends on March 15, and payments will be made quickly thereafter.

Regulations for the TAP were published May 7, 2010. TAP provides disaster assistance to eligible orchardists and nursery tree growers to replant or rehabilitate trees, bushes, and vines that were lost due to natural disaster. Orchardists and nursery tree growers who commercially raise trees, bushes, and vines for which there were mortality losses in excess of 15 percent, after adjustment for normal mortality, are eligible for TAP payments. Eligible losses must have occurred between January 1, 2008, and September 30, 2011. USDA has dispersed $4.5 million thus far under TAP.

Regulations for the EFRP were published November 17, 2010. EFRP will provide financial assistance to owners of nonindustrial private forest land to restore land that was damaged by a natural disaster on or after January 1, 2010. USDA has allocated $3.4 million thus far under EFRP.

FSA also published regulations for the Crop Assistance Program (CAP), Poultry Loss Grant Assistance Program (PLGAP) and Aquaculture Grant Program (AGP), on October 25, 2010. Total CAP payments are approximately $260 million. FSA made CAP payments starting in late February 2011 and will have the final payment phase completed by March 31, 2011. The PLGAP provided about $60 million in assistance to poultry growers whose growing arrangements were terminated because of the bankruptcy of the dealer, and the 2009 AGP provided up to $20 million in assistance for aquaculture producers who experienced high feed input costs during the 2009 calendar year.

Biomass Crop Assistance Program

In June 2009, FSA issued a Notice of Funds Availability for matching payments for the collection, harvest, storage, and transportation of eligible biomass materials sold to qualified biomass facilities for the Biomass Crop Assistance Program (BCAP), with the first payment issued in August. On February 8, 2010, FSA published a proposed rule with a 60-day comment period to fully implement the second phase of BCAP, which includes establishment and annual payments. The final rule for BCAP was published October 27, 2010.

Conservation Reserve Program

As of January 31, 2011, total CRP enrollment stood at 31.2 million acres under 745,000 contracts on 140,000 farms; 4.9 million acres enrolled under 408,000 contracts are for continuous signup practices. In 2010, FSA held the first general signup since 2006, enrolling 4 million acres. FSA anticipates enrollment to be about 31.8 million acres at year end. For FY 2012, the budget projects enrollment of about 31.9 million acres, just below the statutory cap of 32 million acres. In addition, FSA implemented the

Conservation Reserve Transition Incentives Program during FY 2010, which offers retiring landowners an added CRP benefit to transition expiring CRP acres to a new or socially disadvantaged farmer – who in turn enters the land into production using sustainable growing practices. FSA has had unexpectedly high signup for the program, enrolling 372 producers last year.

Secretary Vilsack is committed to the conservation benefits of CRP and FSA is currently midway through a general signup for the program which began on March 14.

New Programs

The regulations for the Voluntary Public Access and Habitat Improvement Program (VPA-HIP) were published July 8, 2010. VPA-HIP is designed to encourage owners and operators of private farm, ranch, and forest land to make that land publicly accessible for hunting, fishing, or other wildlife-related recreation under programs administered by the State or Tribal governments.

Regulations for the Asparagus Revenue Market Loss Assistance Payment (ALAP) Program were proposed on July 16, 2010, and the final rule was published February 4, 2011. The ALAP Program will compensate domestic asparagus producers for marketing losses resulting from imports during the 2004 through 2007 crop years. Payments will be calculated based on 2003 crop production.

Regulations for the Durum Wheat Quality Incentive Program (DWQIP) were published July 20, 2010. The DWQIP compensated producers for the cost of fungicide to control fusarium blight.

Regulations for the new Reimbursement Transportation Cost Payment (RTCP) Program for geographically disadvantaged farmers and ranchers were published June 17, 2010. The purpose of the RTCP Program is to assist farmers and ranchers in Hawaii, Alaska and insular areas who incurred costs to transport either an agricultural commodity or an input used to produce an agricultural commodity. The payments provided by the RTCP Program are intended to offset a portion of the costs of transporting agricultural inputs and products over long distances.

Legislation authorizing payments for dairy farmers was passed in the 2010 Agricultural Appropriations Bill on October 21, 2009. Regulations for the Dairy Economic Loss Assistance Payment Program (DELAP) were published December 17, 2009. Payments began immediately and nearly $270 million of the $290 million appropriated had been paid to farmers by January 5, 2010. DELAP made payments to dairy farmers that were suffering from extremely low milk prices and relatively high input prices during 2009.

BUDGET REQUESTS

Commodity Credit Corporation

CCC FY 2012 baseline expenditures are projected to be $8.5 billion, down from approximately $11.1 billion forecast for FY 2011. In FY 2010, $10.0 billion was expended as compared to a record high of $32.3 billion expended in FY 2000. Commodity prices are expected to remain relatively robust into FY 2012, leading to a continuation of fairly level outlays with direct payments as the largest component.

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. In FY 2011, the Corporation received $15.1 billion for reimbursement of 2010 losses.

Appropriated Programs

For Farm Loan Programs, the Budget proposes a total program level of about $4.7 billion – nearly $1.6 billion for direct loans and over $3.1 billion for guaranteed loans. These levels reflect credit usage forecasts at the time the Budget was developed.

For Direct Farm Ownership Loans the Budget proposes a loan level of $475 million to encourage beginning farmers to establish more productive farming operations. The FY 2012 amount will provide an additional 566 loans, above the base level of 2,366 to meet demand expectations.

For Direct Farm Operating Loans the Budget proposes a loan level of $1.05 billion to assist family farmers in maintaining productive farming operations. This level should meet demand for direct operating loans in FY 2012. This funding level will provide an increase from 12,222 loans to 16,408 loans and reflects the shift in budget authority from the more expensive guaranteed operating subsidized loan program to the direct operating program. This will also result in an increased ability of the overall farm operating program to meet demand, which is expected to continue at the current level.

For Guaranteed Farm Ownership Loans in FY 2012, the Budget proposes a loan level of $1.5 billion to increase the number of loans by 110, from 4,103 to 4,213. The requested loan level is expected to be able to meet the increased demand for this program based on economic need and private lenders tightening of credit availability. For guaranteed farm operating loans we propose an FY 2012 program level of approximately $1.5 billion. The requested amount will reduce the amount of loans available by 28, from the FY 2011 level of 6,550 to 6,522, but should have a minimal impact and will provide sufficient resources to meet program demand.

For Emergency Disaster Loans FSA expects to carry over $18 million from amounts previously appropriated for disaster assistance needs. In addition, the Budget proposes program levels of $2 million for Indian Tribe Land Acquisition Loans and $60 million for Boll Weevil_Eradication Loans.

FSA also requests funding for two new Farm loan programs authorized under the Farm Bill. The requested FY 2012 program level for Guaranteed Conservation Loans is $150 million. For FY 2011, there will be a loan level sufficient for guaranteed loans. The

Indian Highly_Fractionated Land Program is a direct loan program which provides authority to make and insure loans to eligible purchasers of highly fractionated land under the Indian Land Consolidation Act. The requested FY 2012 program level is $10 million and is expected to be adequate to meet the demand for this program.

The 2008 Farm Bill also authorized a pilot program of Individual Development Account Grants to beginning farmers or ranchers with significantly limited financial resources or assets. These grants may be used to purchase or make a down payment on farmland; to purchase breeding stock, fruit or nut trees, or trees to harvest for timber; and for other similar expenditures. FSA requests $2.5 million for this pilot program in FY 2012.

For State Mediation Grants the FY 2012 budget requests $4.369 million, the same as the FY 2011 Annualized Continuing Resolution amount, for grants to 32 States to assist in operating alternative dispute resolution programs that deal with disputes involving a variety of agricultural issues.

For the Dairy Indemnity Program the Budget requests "such sums as may be necessary" as provided in the last three appropriations acts, to compensate dairy farmers and manufacturers when, through no fault of their own, their milk or milk products are removed from commercial markets due to residues of certain chemicals or other toxic substances. The FY 2012 estimate of $100,000 is the amount projected to be used under this indefinite authority.

Since it is impossible to predict natural disasters and difficult to forecast an appropriate funding level for the Emergency Conservation Program, the FY 2012 Budget does not include a request for this program.

FSA Salaries and Expenses

The FY 2012 Budget Request for administrative support within the Farm Service Agency reflects our focus on streamlining processes, investing in more efficient systems, and taking a smart look at our internal costs to cut out unnecessary agency spending. The FY 2012 Budget requests $1.71 billion from appropriated sources including credit reform transfers, for a net increase of $143.3 million over the FY 2011 Annualized Continuing Resolution level. The request includes a decrease of $41.4 million for a buyout of staff years and administrative efficiencies, an increase of $122.3 million to fund critical IT replacement and modernization projects essential to support core agency operations, an increase of $60 million for civil rights settlement costs and an increase of $2.4 million to fund new initiatives to improve Tribal relations.

FSA has taken aggressive action over the past several years and with the FY 2012 budget submission in particular, to reduce discretionary administrative expenditures and operate within available funding. Over the past six years FSA has reduced its workforce by 1,451 staff years in our efforts to be more efficient. The FY 2012 budget reflects a decrease of $27 million for further proposed staffing reductions. This request reflects a difficult choice that was made to help reduce the deficit and FSA Federal staff-years will decrease by 504 from the FY 2011 level. The remaining staffing levels are sufficient to enable FSA to handle the workload associated with the broad array of complex programs entrusted to us. In addition, we will achieve more efficiency reductions in our non-IT service contracts, travel and relocation incentives totaling $14.4 million.

The IT request includes increases of $96.3 million to continue the MIDAS project and $26.0 million to support USDA's effort to modernize and upgrade the Common Computing Environment for the Service Center agencies. When complete, MIDAS will provide benefits to employees, farmers and ranchers and cover FSA's Farm programs including price support programs, conservation and environmental programs, and production and emergency disaster programs. MIDAS will improve service delivery for these programs by providing farmers with faster farm program payments, reducing travel time and visits to field offices, providing faster customer service, providing faster implementation of new programs, improving access and convenience via web-based systems, reducing paperwork, increasing security and keeping farmers better informed of the status of their applications and requests.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

◊ ◊ ◊

[The statement of Mr. Murphy follows:]

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE COPORATION

Statement of William J. Murphy, Administrator and Manager before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies

Chairman Kingston, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the fiscal year (FY) 2012 budget for the Risk Management Agency (RMA). The Federal Crop Insurance Program is an integral part of the farm safety net. RMA works daily to validate the utility of current insurance products – making certain we have the best protection possible for all of America's farmers and ranchers. RMA works to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against fraud, waste, and abuse within the program. In RMA's role as a regulator, it must also ensure the continued integrity and actuarial soundness of the Federal Crop Insurance Program. We are also aware that in today's economy, it is particularly important that the program be cost effective and give a fair value for the taxpayers' dollar.

That is why we are proud that the new Standard Reinsurance Agreement (SRA), which we and the Approved Insurance Providers (AIPs) diligently negotiated in good faith last July, will achieve $6 billion in savings over the next 10 years. Two-thirds of the savings from the new SRA, $4 billion, will go toward paying down the Federal deficit. The $4 billion in budget savings the Department of Agriculture (USDA) obtained is one of the first and most significant steps that a federal agency has achieved in reducing mandatory spending and the Federal deficit. The President has laid out an aggressive plan for reducing the deficit and we are pleased to take a leadership role in that effort.

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) authorized the renegotiation of the SRA, which is the agreement between USDA and the 17 AIPs who deliver the program. Of the $6 billion saved by RMA, the remaining $2 billion that did not go toward deficit reduction went toward support of high priority risk management and conservation programs. This $2 billion was invested primarily to improve and expand several RMA risk management products as well as provide a Good Performance Refund that will benefit farmers and ranchers for years to come.

STATUS OF THE FEDERAL CROP INSURANCE PROGRAM

The Federal Crop Insurance Program is helping the men and women who produce America's agricultural products to manage risk in an inherently risky business. For crop year 2010 with 1.1 million policies on 256 million acres, the program provided $80 billion in risk protection. Of the $7.5 billion in total premium, USDA subsidized $4.7 billion for farmers, and paid out nearly $3.5 billion in claims for lost or damaged crops. In addition, RMA awarded $13.4 million in outreach and risk management education partnership agreements during FY 2010, of which $5.6 million directly supported small and underserved producers across the country.

Producers generally have a choice of crop policies, with coverage they can tailor to best fit their risk management needs. In many cases, producers can buy insurance coverage for a yield loss, or revenue protection to provide coverage for a decline in yield or price. Today, most producers "buy up" to higher levels of coverage ranging up to 85 percent (smallest deductible); although a low level of catastrophic coverage (CAT) is still available for a nominal fee with the premium fully subsidized. Indemnity payments are usually made within 30 days after the producer signs the claim form.

Producers also have their choice of livestock programs, which are designed to insure against declining market prices of livestock. Coverage in these programs is determined using futures and options prices from the Chicago Mercantile Exchange Group.

The crop insurance program has seen an increasing proportion of acres insured at buy up levels over the last decade. The type of coverage being purchased is also shifting to the more comprehensive revenue coverage. In 2010, revenue coverage accounted for 65 percent of the insured acres, compared to just 33 percent in 2000. In addition, the average coverage level (percent of the total crop covered) for buy up insurance has increased to approximately 73 percent for 2010, compared to 68 percent in 2000.

In crop year 2010, Federal crop insurance was available for approximately 350 commodities, in over 3,141 counties covering all 50 States and Puerto Rico. RMA maintained a participation rate of nearly 82 percent for the ten principal crops in 2010. Many banks now require or at least encourage crop insurance coverage in order to make operating loans to producers. Federal crop insurance has become a fact of life for many farmers. American farmers would now find it difficult to continue providing America and the world with an abundant supply of food, fiber and fuel without the program.

Improvements to the program have been accomplished in an actuarially sound manner as required by Congress. Over the last two decades, premiums (producer premiums added to premium subsidies) have been sufficient to cover the indemnities paid to producers plus a reasonable reserve, as directed by the Federal Crop Insurance Act.

In line with what Congress has directed RMA to do with respect to this law, we have been working to administer the Federal Crop Insurance Program in a manner that provides effective risk management opportunities to farmers and ranchers in all geographic areas regardless of the size of their operation.

OVERVIEW OF THE FY 2012 RMA BUDGET PROPOSAL

The FY 2012 RMA budget proposal reflects a conservative funding level and a small but important increase for the discretionary Administrative and Operating (A&O) Expense Account. The mandatory Federal Crop Insurance Corporation (FCIC) Fund is less than half the FY 2011 request due to timing shifts outlined in the 2008 Farm Bill. The mandatory request also reflects a legislative proposal to reduce the imputed premium amount for catastrophic (CAT) coverage, resulting in an estimated savings of $1.77 billion over 10 years. Because CAT is fully subsidized for the farmer, changing the premium amount will not affect farmers' costs for CAT, and will only affect payments to AIPs.

In order for the Federal Crop Insurance Program to support risk protection coverage of $93.6 billion in 2012, the funding level proposed for the FCIC Fund is $3.1 billion, and for the A&O Expense Account, $82.3 million.

A&O EXPENSE ACCOUNT:

RMA's FY 2012 request of $82.3 million for discretionary administrative expenses includes an increase of $2.0 million for information technology (IT) investments. The increase provides for an increase in IT maintenance costs associated with the IT modernization (ITM) initiative, as mandatory funding provided in the 2008 Farm Bill expires at the end of FY 2011. RMA will be required to maintain both legacy and new modern systems during final implementation to ensure uninterrupted operations while the new system becomes fully operational. The increase in funding will also help to guarantee that RMA can properly exchange data with private insurance partners and interface with industry and other government entities, resulting in optimal program performance, delivery, and monitoring.

FCIC FUND:

The FY 2012 budget proposes under current statute that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is sufficiently funded to meet estimated growth based on the latest program indicators.

The basis for premium subsidy stems largely from USDA's latest projections of participation and expected higher market prices. However, due to changes outlined in the 2008 Farm Bill collection of premium will be accelerated. As a result, the need for premium subsidy in FY 2012 is reduced. The FY 2012 estimate for such subsidy is $2.9 billion.

Additionally, changes outlined in the 2008 Farm Bill require RMA to delay payments for administrative and operating reimbursements provided to AIPs and underwriting gains into FY 2013. Therefore, there is no budgetary requirement for either of these items in FY 2012.

Federal Crop Insurance Act initiatives total $59.5 million. Program outreach and risk management education (RME) projects, among other key activities such as research and development contracts and the Comprehensive Information Management System, are funded from this amount. The $9 million decrease in FY 2012 is because authority for the Information Technology Modernization activity expires in FY 2011.

RECENT KEY ACCOMPLISHMENTS

GOOD PERFORMANCE REFUND:

RMA has several improvements to its programs underway. As a result of the savings from the SRA, RMA has published a proposed rule for a Good Performance Refund (GPR) program, which would return a portion of out-of-pocket premium costs to farmers and ranchers who have had favorable insurance history in the Federal Crop Insurance Program. This refund program intends to reward producers' good insurance performance and encourages them to continue participation in the program and use the best available management practices. Farmers and ranchers have expressed interest in a premium discount or refund program since the mid-1990s, when there was a premium reduction program.

We anticipate that $75 million will be available for this program each year, beginning in crop year 2012, and benefitting farmers and ranchers across rural America. According to the proposed rule, RMA expects that there would be qualifying producers in over two-thirds of the counties nationwide. RMA published the proposed rule in the federal register on January 6, 2011 and the comment period ended on January 21, 2011. RMA is carefully reviewing the comments that were provided.

INFORMATION TECHNOLOGY MODERNIZATION (ITM):

RMA's ITM project is a multi-year, phased-implementation reengineering initiative to support Combo and new insurance programs and products, increase actuarial capabilities, and provide efficient policy and financial processing for producers and AIPs. The first phase, which became operational in April 2010, focused on actuarial processes, policy processing, premium calculations, and other functions needed to administer various 2011 crop year insurance offers and implement the new Combo policy which affects about 75 percent of FCIC's $80 billion program. The next phases of the ITM program, corporate business reporting and financial accounting, are in development. ITM is already enhancing services and benefits to producers through improved actuarial ratings, policy processing, and program integrity.

PROGRAM INTEGRITY:

In conjunction with the improved quality control requirements in the new SRA, RMA Compliance Division has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone. RMA is currently reviewing company operations and internal controls to determine the success of their efforts to address crop insurance program vulnerability concerns and reduce common errors. Reviews conducted by RMA in response to the requirements of the Improper Payments Information Act of 2002, as amended, over the past seven years indicate that the program operates with an error rate of around 5 percent. This compares favorably with the private Property and Casualty Insurance

Industry that typically reports error rates between 15 and 20 percent for those lines of business in the private sector.

RMA continues to make significant progress in preempting fraud, waste and abuse through the expanded use of data mining. Through data mining and data warehousing, RMA uses geospatial data, satellite data, National Oceanic and Atmospheric Administration weather data, soil surveys, statistics, and probability theory to support the Agency's underwriting and oversight activities. RMA continues to save hundreds of millions of dollars through its data mining program to identify anomalous producers, agents and loss adjusters. With assistance from the Farm Service Agency (FSA) state and county offices, RMA and AIPs review producers' farm operations to ensure that the crop losses are valid.

RMA is constantly identifying ways to balance competing needs to make our products less susceptible to fraud while seeking to provide responsive, useful risk protection to farmers. To date, these concerted efforts have saved $720 million through the Spot Check List program, which is a cooperative effort with RMA, FSA and the AIPs.

REVIEW OF RATING METHODOLOGY:

RMA contracted a review of its methodology and procedures used to determine the yield target rates and the rating process for the new COMBO policy. This review found that RMA's general premium rating methodology (based on historical losses) is appropriate and should continue to be used. RMA contracted for the review with Sumaria Systems, Inc. The draft report was received in November 2009 and was made available for public comment. A final version of the review is now available at http://www.rma.usda.gov/pubs/2009/comprehensivereview.pdf on the RMA Web site.

The study identified several areas for potential improvement, the most significant of which is to determine if all historical losses should be given the same weight in determining premium rates. In addition, the study suggested that key aspects of today's crop insurance program along with crop production technology (such as biotechnology) should be evaluated for potential effects on historical loss experience. This would provide a basis for evaluating the degree to which past catastrophic events may affect the historical loss data used in establishing current premium rates, and as appropriate, allow for adjustments to those rates. This could potentially result in lower premium rates in several parts of the country, especially the Corn Belt. Last fall RMA solicited bids to conduct a follow up review of its historical loss data, and the contractor Sumaria Systems, Inc. currently has work underway addressing these issues.

CONCLUSION

Along with members of the Federal Crop Insurance Corporation Board of Directors and all the RMA staff across the country, I recognize that the risk management tools that RMA provides are a critical part of the farm safety net for America's farmers and ranchers. We are also very aware of our responsibility to be good stewards of taxpayer money. By creating a new SRA that maintains excellent service to farmers and ranchers, while reducing costs to taxpayers, and by making several other important improvements to the program in the last year, we at RMA have acted responsibly with our private sector partners to improve the farm safety net. Again, thank you for the opportunity to participate in this important hearing.

Mr. Chairman, I would be pleased to answer any questions that you and other members of the Subcommittee may have. Thank you.

FARM SERVICE AGENCY

Questions Submitted by Mr. Kingston

BUDGET CONSTRAINED

Mr. Kingston: According to your witness statement you are presenting a constrained 2012 budget. How does a 9 percent increase in the request relate to that statement?

Response: The nine percent increase for FSA is for IT Modernization of the obsolete FSA Computer Systems: $96.3 million increase for continued implementation of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiative and $26 million increase to support the Department's Common Computing Environment (CCE) upgrades for the Service Center Agencies. In addition, the following increases have been included in the budget: $40 million for discrimination settlements filed under the Equal Credit Opportunity Act (ECOA); $20 million for the administrative cost of resolving civil rights claims; and $2.375 million in travel, printing and rent for Tribal Relations. However, if you exclude these IT and civil rights increases, the remaining Salaries and Expenses budget, which covers the administrative costs associated with implementing FSA's programs, is reduced by 2.7% and includes a reduction of 504 Federal employees.

Mr. Kingston: What constraints are in this budget request?

Response: The budget request has a $27 million net decrease for pay and related costs to sustain essential program delivery resources. The reduction includes a $43 million decrease for a buyout of 504 federal staff years, a $12 million increase for Voluntary Separation Incentive Payments (VSIP) and a $4 million increase for employee lump sum salary expenses. In addition, a $14.4 million savings is anticipated from administrative efficiencies.

Mr. Kingston: The budget request contains two new initiatives, the Individual Account Pilot Program ($2.5 Million) and Tribal Relations ($2.5 Million). How does a constrained budget allow for new initiatives? Shouldn't we be concentrating on core programs in this budget environment?

Response: The Individual Development Account Pilot Program was authorized in the 2008 Farm Bill. The statute links the program with FSA farm loan programs, as a way to assist new farmers. The $2.5 million request is a very modest investment to explore an alternative method of helping new farmers get started. We believe it is important, even in times of limited funding, to explore potentially more effective methods to increase the number of beginning farmers. The $2.4 million in funding that is requested for Tribal Relations is an important part of our efforts to improve and strengthen tribal relations following the settlement of the Keepseagle class action lawsuit. The funding includes $250,000 for communications and outreach, $125,000 for an Advisory Committee on Native American Farming, and $2 million to establish new FSA sub-offices on tribal reservations.
FSA LOAN PROGRAMS

FSA LOAN PROGRAMS

Mr. Kingston: Most of Rural Development's loan and loan guarantee programs have a negative subsidy rate, meaning they have no cost to the taxpayer. Why do FSA's loan programs have a cost?

Response: RD and FSA loan programs have substantially different missions and serve different customers; therefore, a comparison of subsidy rates has limitations. One area that has some comparability is the RD single family housing program and the FSA farm ownership program. Interestingly, the subsidy rates for these programs are actually very similar. Subsidy rates for RD direct and guaranteed single family housing loans are 4.73% and -0.03% respectively. Subsidy rates for FSA direct and guaranteed farm ownership loans are 4.80% and -0.01% respectively.

Mr. Kingston: The 2008 farm bill directed USDA to establish a plan and promulgate regulations to promote the transition of borrowers to private commercial credit in the shortest period of time practicable. What is the status of this regulation? How many producers does FSA transition each year?

Response: A Final Rule implementing the graduation provisions of the 2008 Farm Bill was published on January 28, 2011 and became effective on February 28, 2011. In FY 2010, 2,221 FSA Farm Loan Program (FLP) borrowers transitioned to private credit. This represents about 3.22 percent of the direct loan portfolio. The graduation rate normally ranges from 3 to 6 percent annually, depending on economic factors such as commodity prices, land values, and interest rates.

Mr. Kingston: Last fall, FSA's direct loan delinquency was 5.9 percent. For the guaranteed programs, the loan delinquency rate was 1.69 percent. Why is there such a difference?

Response: The Consolidated Farm and Rural Development Act restricts FSA direct loans to borrowers who are unable to obtain commercial credit. In addition, the FSA direct loans are targeted to beginning and socially disadvantaged farmers and other limited resource producers who have a limited credit history, limited capital, tight cash flow margins, or other financial difficulties. While guaranteed borrowers may face similar limitations, their financial situations are stronger, and they are close enough to meeting commercial standards that a lender will provide financing with an FSA guarantee. The difference in financial strength is a key factor in the stronger performance by guaranteed borrowers. Given the financial characteristics of direct borrowers--limited equity, slim operating and repayment margins, and the fact that commercial lenders consider them to be unacceptable credit risks, the fact that there is only a few percentage points difference between our borrowers and commercial banks is remarkable. In fact, it could be asked why commercial lenders are not doing more to serve over 94 percent of our borrowers who are current on their loan repayments.

Mr. Kingston: What is FSA doing to reduce the delinquency rate on direct loans?

Response: The direct loan delinquency rate is at a historic low. It has been reduced from 20 percent in FY 1996 to 5.9 percent in FY 2010. FSA makes full use of its statutory and regulatory authorities to collect direct loans and help borrowers become successful. The Agency works closely with direct borrowers and provides technical assistance to help them make sound financial decisions. FSA uses a state of the art financial analysis tool used by many commercial farm lenders, the web-based Farm Business Plan, to evaluate borrower finances and make credit decisions. Restructuring, reamortization, deferral, and write-down are all used to assist borrowers so that they can continue to farm and repay FSA and other creditors. FSA makes extensive use of administrative and Treasury Offsets, as authorized by the Debt Collection Improvement Act (DCIA), to collect debt when accounts become 90 days delinquent. FSA is striving to maintain the rate at the present historically low levels. FSA has established program performance goals, including goals for reducing and maintaining low delinquency rates. Agency employees with farm loan program responsibilities are held accountable for reaching program goals; their performance standards are linked to goal accomplishment.

Mr. Kingston: What is the delinquency rate on the FSA loan programs?

Response: As of February 28, 2011, 6.67 percent of the direct loan dollars outstanding, and 1.56 percent of the guaranteed loan dollars outstanding, were delinquent. It is important to note that the majority of FSA direct loans have a single annual payment which is due on or about January 1st. As a result, delinquency rates are highest in January and are reduced over time through technical assistance, aggressive servicing, and use of collection tools. Loan delinquencies that cannot be cured are moved into liquidation within a matter of months.

Mr. Kingston: What is the default rate on FSA loan programs?

Response: Because of the way the authorizing statutes require FSA to resolve delinquencies, FSA does not distinguish between delinquency and default. FSA considers the default rate to be the delinquency rate. As of February 28, 2011, 6.67 percent of the direct loan dollars outstanding, and 1.56 percent of the guaranteed loan dollars outstanding, were delinquent. However, we would note that in FY 2010, direct loan losses were only 1.2 percent of the total portfolio, and guaranteed losses were only 0.6 percent of the total portfolio.

Mr. Kingston: How many loans in each program are delinquent?

Response: As of February 28, 2011, there are 23,723 direct loans delinquent out of a total of 127,031 direct loans outstanding, and 1,501 guaranteed loans delinquent out of 55,054 outstanding.

Mr. Kingston: How many loans have defaulted and what is the value of those loans that have defaulted?

Response: As of February 28, 2011, the 23,723 delinquent direct loans totaled $520.6 million out of a total direct portfolio of $7.8 billion and the 1,501 delinquent guaranteed loans totaled $173.9 million out of a total guaranteed portfolio of $11.2 billion.

Mr. Kingston: What is the status of those loans that have defaulted?

Response: Traditionally, most FSA direct loan installments are due on January 1st of each year. As a result, delinquencies are highest during the first few months of the year and decline through the remainder of the year as borrowers become able to pay delinquent installments or have installments restructured through loan servicing procedures. Because of the very structured loan servicing process prescribed in the authorizing statute, delinquencies are either cured or the account is moved into liquidation in a matter of months.

Mr. Kingston: Please describe the 7 different servicing methods FSA provides to producers. How many of these servicing options is a producer eligible to receive per loan? Do the servicing options ever extend the term of a loan beyond the relevant term limit?

Response: It is important to note that these servicing actions are not automatic. A realistic cash flow projection must reflect the ability to pay installments resulting from the servicing actions for any of these adjustments to occur. A description of direct loan servicing alternatives is as follows:

1. Interest rate reduction - The existing interest rate on a loan may be reduced to a lower rate if a lower rate is currently being charged on that type of loan. Within the practical consideration that rates might remain static, this can be done an unlimited number of times in conjunction with Primary Loan Servicing.

2. Rescheduling - Chattel type loans can be rescheduled for up to 15 years from the date of rescheduling. This can be done an unlimited number of times in conjunction with Primary Loan Servicing.

3. Reamortization - Real Estate type loans can be rescheduled for up to 40 years from the date of the original promissory note. This can be done an unlimited number of times in conjunction with Primary Loan Servicing.

4. Deferral - Payments on loans may be partially or completely deferred for up to five years. This can be done an unlimited number of times in conjunction with Primary Loan Servicing.

5. Write-down - Debt is forgiven when FSA will receive an equal or greater net return on the loans by reducing the debt and continuing with the account than it would realize through foreclosure. Borrowers are limited by statute to one instance of write down, but may receive write down on multiple loans in that instance. Borrowers who receive debt forgiveness may not receive additional FSA credit other than annual production loans.

6. Disaster Set-Aside (DSA) - Farmers who operate in designated disaster areas can have one payment moved to the end of the loan. There is a limit of one DSA per loan unless the loan is restructured through Primary Loan Servicing and then one installment may again be considered for DSA if there is another disaster.

7. Conservation Contract - The Conservation Contract program provides debt cancellation for a borrower in exchange for a Conservation Contract on land owned by the borrower. This can be done an unlimited number of times per loan if new conservation measures are implemented on different real estate parcels.

Mr. Kingston: Please describe FSA's policies and procedures for collecting on delinquent loans and those in default.

Response: The authorizing statute requires FSA to follow a very specific process and schedule when a direct loan borrower becomes delinquent. Borrowers are notified of their rights to primary loan servicing programs at any time but must be notified of these rights once an account is 90 days delinquent. Most borrowers pay the delinquency if they are able, or request Primary Loan Servicing and Disaster Set Aside (if applicable). A borrower may not have payments adjusted through primary loan servicing unless realistic cash flow projections indicate that the borrower will be able to meet the revised payment schedule. If the delinquency cannot be cured through primary loan servicing, the borrower may voluntarily liquidate the security property and pay the loan, or FSA will proceed to accelerate the account and foreclose on collateral. FSA uses all offset authorities to collect delinquent loans. When an account becomes 90 days delinquent, it is referred for administrative offset of FSA payments, and referred to the Department of Treasury for the Treasury Offset Program (TOP) against any other Federal payments.

IT MODERNIZATION

Mr. Kingston: Your testimony and the budget justification shows the $117 million that this subcommittee has provided for IT modernization initiatives. Please tell the Committee specifically what this money has been used for? I am looking for some responses here that clearly show that this money has been spent wisely, that the Department and taxpayers are getting a return on this investment, and that there is a clear understanding of what exactly the deliverables are under this IT modernization effort?

Response: The $117 million provided in FY 2010 was not for all FSA modernization efforts. This funding supported only Stabilization and Modernize and Innovate the Delivery of Agricultural Systems (MIDAS). MIDAS supports the modernization of Farm Program delivery systems and also has interdependencies with other existing FSA and Departmental IT system modernization efforts including: Financial Management Modernization

Initiative (FMMI), Geospatial Information Systems (GIS), and Enterprise Data Management (EDM).

A total of $51.4 million was used to complete the Stabilization Project. Stabilization increased productivity and performance in delivering mandated farm programs by decreasing work stoppages and lowering the risk of future stoppages.

The Stabilization effort increased FSA's ability to monitor data communication along its extensive IT network and more effectively manage the network for peak-load traffic that can occur during high volume periods such as program sign-ups.

The remaining $65.9 million was used for the MIDAS Project. FSA continues to make progress to the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project. In the fourth quarter of 2010, the MIDAS team completed the project planning, staffing and acquisition phases. In 2011, MIDAS is conducting the "blueprint" requirements by gathering information on programs and documenting common business processes. Adjustments and prioritization of next steps and actions will be done to best serve FSA's Farm Programs mission priorities. In FY 2012, FSA intends to begin initial deployment of some applications.

Mr. Kingston: How has the implementation and delivery of new farm bill programs become increasingly difficult to ensure without additional progress in modernizing IT systems, as your testimony indicates? You alluded to the fact in your testimony that you implemented two new Farm Bill programs, ACRE and SURE, with minimal resources?

Response: With new, data intensive programs that require complex analysis, it has become increasingly important to modernize FSA's IT systems. FSA has successfully implemented Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance Payments (SURE) with limited resources. However, the means for implementation is not optimum; manual data entry and lack of system validations increase workload and the risk of errors, and add substantially to program integrity concerns.

FSA implemented the ACRE program starting with the 2009 crop year and completed the signup for the 2008 SURE program in fiscal year 2010. These programs require complex analysis including compiling prices, acreage, payment, crop insurance data from other programs and agencies. FSA implemented the ACRE program by modifying the Direct and Counter-Cyclical (DCP) contract and payment system. With SURE, FSA manually entered data into Excel worksheets to calculate a producer's eligibility and benefit amount. FSA did not have sufficient resources to develop a fully automated SURE system for a timely deployment.

At the end of fiscal year 2010, 57% of the FSA Service Center based programs were delivered via the web. The remaining programs are delivered in the obsolete AS-400/System 36 technology. Delivering programs across multiple technologies impacts the timeliness and quality of the customer and program data and adds difficulty to implementing new farm bill programs. The data needed to support a program may be distributed across multiple locations and technologies. This data must be migrated to a central repository and prepared for use by March of FY 2013. Modernization of the IT systems will streamline the business processes and integrate data collection and analysis to enable timely delivery of new farm bill programs.

Mr. Kingston: Is the continued implementation of business processes and IT modernization the highest priority in FSA's budget request?

Response: Yes, IT modernization is the highest priority for the fiscal year 2012 budget request. This funding will augment previous IT investments and will go a long way toward making program benefits more accessible to producers, improving quality of service, operational efficiency, and greater accountability.

Mr. Kingston: How is FSA transitioning to a web-based system? Is the FSA using technology that is already available commercially or is FSA building its own web-based system?

Response: FSA has initiated several modernization and transformation projects geared towards transitioning to a web-based system and improving the delivery of agricultural services, programs, and benefits using both commercially available and custom built solutions.
Some applications residing on the obsolete AS-400/System 36 have been migrated to a web based environment by using Java based and open/portable applications. In other instances, FSA has used Commercial off the Shelf Software (COTS), such as Systems Applications and Products (SAP), to develop Farm Program delivery systems on the web (e.g. Modernize and Innovate the Delivery of Agricultural Systems, MIDAS), and financial management systems applications (e.g. Financial Management Modernization Initiative, FMMI) and supply chain management systems (e.g. Web Based Supply Chain Management, WBSCM).

Transitioning to a web based system also involves strengthening, enhancing and refreshing the infrastructure which will support the modernized IT environment and applications. In the proposed FY 2012 budget, funds have been requested for refreshment and upgrade of Service Center computers and related IT technology. When completed, this will produce effective performance in the current IT environment and support the functionalities of the longer term FSA IT transformation and modernization. Also, FSA is investing in consolidating program and financial data currently residing in disparate systems into a common repository using data warehouse technology as a reporting tool to provide a centralized view of FSA program and financial data.

Mr. Kingston: You say that the FSA established a Project Management Office. Is the PMO a contractor or USDA employees?

Response: A USDA employee leads a Project Management Office, which consists of core Government staff supported by contractors. The contractors extend the Government's management capabilities and provide strategic advisory support in guiding how technology is being leveraged to enable modernization.

Mr. Kingston: The testimony indicates that the FSA has recently finalized all necessary vendor contracts for the implementation of MIDAS. What does this mean?

Response: There are seven contracts that have been issued to date in order to support the MIDAS project. Each contract is a necessary component of the acquisition strategy for MIDAS. The seven contracts and vendors are outlined below:

Complete:

- Project Management (Torres) - Supported early acquisition work and established initial PMO structure.

Ongoing:

- Enterprise Resource Planning (ERP) PMO (Deloitte) - Extends the Government staff by adding experience and expertise in Program Management and large-scale ERP implementations in the public and private sector. Deloitte adds analytical capability that protects the Government from relying solely on the System Integrator for decision support.

- System Integrator (SRA International), Task Orders 1a and 2 - Establishes an industry partner to build a solution consisting of data, business processes, software, and hardware that will meet our requirements.

- Independent Verification & Validation [IV&V] (Capgemini) - Further protects the Government's interest by validating that we invest in technology that satisfies our business requirements and that we are implementing the technology correctly.

- Development Environment (USDA National Finance Center) - The USDA National Finance Center will establish the physical environments necessary to develop and host the solution.

- Enterprise Software License (Carahsoft/SAP) - Allows the Government to purchase licenses from the commercial software vendor which serves as the centerpiece of our integrated business solution.

- Lean Six Sigma (Torres) - Supports the system integrator in developing future business processes to help prepare FSA to fully utilize the benefits of the future solution.

Mr. Kingston: Provide a copy of all vendor contracts for MIDAS implementation for the record.

Response: The information is submitted for the record.

[The information follows:]

Attachment A
N10PB020006 Deloitte Consulting LLP

PERIOD OF PERFORMANCE

Base Year: 06/01/2010 through 05/31/2011
CLIN 0001 – Labor - $2,904,865.00
CLIN 0002 - Travel - $15,000.00
CLIN 0003 – Training - $5,000.00 (G&A of 34% included in price)

Option Year 1 – 6/01/2011 through 11/30/2011 pursuant to FAR 52.217-9
CLIN 0004 – Labor - $2,427,355 00
CLIN 0005 – Travel - $10,000.00

Total period of performance – 06/01/2010 through 11/30/2011

TOTAL ESTIMATED VALUE

The total estimated value is $5,362,220.00

GOVERNMENT CONTRACT ADMINISTRATION

Government Contract Administrator:

Department of the Interior – National Business Center
Acquisition Services Directorate – Sierra Vista Branch
Post Office Box 12924
Fort Huachuca, AZ 85670-2924

POC: Stephanie Slater
Phone: 520-533-0387
Fax: 520-538-0415
Email: Stephanie_M_Slater@nbc.gov

CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE
The COTR for call order is:
Karl Keller
Deputy Director Project Management
USDA Farm Service Agency
ITSD/MIDAS

1400 Independence Ave SW
Washington DC 20250

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT | 1. CONTRACT ID CODE | PAGE 1 OF 2 PAGES

2. AMENDMENT/MODIFICATION NO.	3. EFFECTIVE DATE	4. REQUISITION/PURCHASE REQ. NO.	5. PROJECT NO. (If applicable)
PS01		21477896	

6. ISSUED BY CODE AJ000

FEDSIM Acquisition (QF0BCA)
2100 Crystal Drive, Suite 800
Arlington, VA 20406
Contract Specialist Name: Donna L. Broady
Contract Specialist Phone: 703-605-3553

7. ADMINISTERED BY (If other than Item 6) CODE

8. NAME AND ADDRESS OF CONTRACTOR (No., Street, County, State and ZIP Code)

CAPGEMINI GOVERNMENT SOLUTIONS LLC (Herndon, VA)
2250 CORPORATE PARK DR STE 406
Herndon, VA, 20171-2899
Phone: 571-336-1609 Fax: 571-336-1700

CODE | FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

X 10A. MODIFICATION OF CONTRACT/ORDER NO.
GSQF0BBPA100003 / GSQF0BBPA100003C0001

10B. DATED (SEE ITEM 13)
07/09/2010

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing items 8 and 15, and returning ____ copies of the amendment; (b) By acknowledging receipt of this amendment on each of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGEMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment your desire to change an offer already submitted, such change may be made by telegram or letter provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

Fund Citation: 299X.A00VR290.F2.25.C01.515 Total Amount of MOD: $4,065,233.55

13. THIS ITEM ONLY APPLIES TO MODIFICATION OF CONTRACTS/ORDERS. IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
X	D. OTHER (Specify type of modification and authority) Far 43.103 (a) Bilateral modification

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return ____ copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this modification is provided on the attached continuation page

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print)		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)	
CHRISTOPHER GIUSTI CFO		Victor B. Angkico	
15B. CONTRACTOR/OFFEROR	15C. DATE SIGNED	16B. UNITED STATES OF AMERICA	16C. DATE SIGNED
(Signature of person authorized to sign)	9/28/10	(Signature of Contracting Officer)	9/29/10

NSN 7540-01-152-8070
Previous edition unusable

STANDARD FORM 30 (REV. 10-83)
Prescribed by GSA FAR (48 CFR) 53.243

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT					1. CONTRACT ID CODE		PAGE 2 OF 2 PAGES
Line Item Summary							
ITEM NO. (A)	SUPPLIES OR SERVICES (B)	QUANTITY ORDERED (C)	UNIT (D)	UNIT PRICE (E)	Rev. Ext. Price (F)	Prev Ext. Price (G)	Amount Of Change (H)
0001	Labor (LH NTE)	1.0	lot	$4,540,886.99	$4,540,886.99	$775,653.34	$3,765,233.65
0002	Travel - CR NTE	1.0	lot	$350,000.00	$350,000.00	$50,000.00	$300,000.00
				TOTALS:	$4,890,888.99	$825,653.34	$4,065,233.65

ORDER FOR SUPPLIES OR SERVICES

PAGE 1 OF 3 PAGES

IMPORTANT: Mark all packages and papers with contract and/or order numbers.

1. DATE OF ORDER: 03/03/2010
2. CONTRACT NO. (If any): GS-10F-0083L
3. ORDER NO.: N10PB020006
4. REQUISITION/REFERENCE NO.: SZ100543
5. ISSUING OFFICE (Address correspondence to):
DOI - NBC, Ft. Huachuca AZ
NBC / Acquisition Services Directorate
Sierra Vista Branch,P.O. Box 12924
Fort Huachuca AZ 85670-2924

6. SHIP TO:
a. NAME OF CONSIGNEE: No Shipping Information
b. STREET ADDRESS
c. CITY
d. STATE
e. ZIP CODE
f. SHIP VIA: Best Way

7. TO
a. NAME OF CONTRACTOR: Andrew Higgins
b. COMPANY NAME: DELOITTE CONSULTING L.L.P.
c. STREET ADDRESS: 1725 DUKE ST
d. CITY: ALEXANDRIA
e. STATE: VA
f. ZIP CODE: 22314-3456

8. TYPE OF ORDER
☐ a. PURCHASE
REFERENCE YOUR:
Please furnish the following on the terms and conditions specified on both sides of this order and on the attached sheet, if any, including delivery as indicated.
☐ b. DELIVERY - Except for billing instructions on the reverse, this delivery order is subject to instructions contained on this side only of this form and is issued subject to the terms and conditions of the above-numbered contract.

9. ACCOUNTING AND APPROPRIATION DATA
2010 - - WH - 6941 - - 252Z - - WHARA - - - EFAD67 - - 1A - - - -

10. REQUISITIONING OFFICE: USDA

11. BUSINESS CLASSIFICATION (Check appropriate box(es))
a. SMALL ✓ b. OTHER THAN SMALL c. DISADVANTAGED d. WOMEN-OWNED

12. F.O.B. POINT: Destination
13. PLACE OF
a. INSPECTION: Refer to BPA Call Order
b. ACCEPTANCE: Refer to BPA Call Order
14. GOVERNMENT B/L NO.
15. DELIVER TO F.O.B. POINT ON OR BEFORE (Date)
16. DISCOUNT TERMS
10 days %
20 days %
30 days %
days %

17. SCHEDULE (See reverse for Rejections)

ITEM NO. (a)	SUPPLIES OR SERVICES (b)	QUANTITY ORDERED (c)	UNIT (d)	UNIT PRICE (e)	AMOUNT (f)	QUANTITY ACCEPTED (g)
	SEE LINE ITEM DETAIL					

18. SHIPPING POINT
19. GROSS SHIPPING WEIGHT
20. INVOICE NO.
17(h) TOT (Cont. pages)

SEE BILLING INSTRUCTIONS ON REVERSE

21. MAIL INVOICE TO: Ft_Huachuca_Pay_NBCDENVER@
a. NAME: Dept of the Interior - National Business Center
b. STREET ADDRESS (or P.O. Box): National Business Center - Denver, Fiscal Support Section - D2730-FH, 7301 W. Mansfield
c. CITY: Denver
d. STATE: CO
e. ZIP CODE: 80235-2230

17(i) GRAND TOTAL: $2,924,865.00

22. UNITED STATES OF AMERICA BY (Signature) Russell K Choate 8/09/2010

23. NAME (Typed): Russell K. Choate
TITLE: CONTRACTING/ORDERING OFFICER

NSN 7540-01-152-8083
Previous edition not usable
National
OPTIONAL FORM 347 (REV. 6/95)
Prescribed by GSA/FAR 48 CFR 53.213(f)

Line Item Summary	Document Number N10PB020006	Title USDA	Page 2 of 3

Total Funding: $2,924,865.00

FYs	Fund	Budget Org	Sub	Object Class	Sub	Program	Cost Org	Sub	Proj/Job No.	Sub	Reporting Category
2010	WH	6941		252Z		WHARA			EFAD67		1A

Division | Closed FYs | Cancelled Fund

Line Item Number	Description	CLIN Ref	(Start Date to End Date)	Quantity	Unit of Issue	Unit Price	Total Cost (includes Discounts)

This BPA Call Order is using funding provided under the American Recovery and Reinvestment Act (ARRA). This order is issued under BPA #AG-BCHA090001 off of GSA Contract #GS-10F-0083L. See Attachment A for SOW and additional information.

Line Item Number	Description	CLIN Ref	(Start Date to End Date)	Quantity	Unit of Issue	Unit Price	Total Cost (includes Discounts)
0001	Services	0001	(06/01/2010 to 05/31/2011)	1.00	LO	$2,904,865.000	$ 2,904,865.00

The Contractor's quote dated 05/20/2010 is accepted and incorporated herein by reference for the statement of work entitled, "Task Order MIDAS 102 2010 ERP Support Services." See Attachment A for additional information.

This is a Time and Materials contract. Therefore, invoicing will be done at the end of the month, reflecting the costs incurred for the government-approved labor hours utilized during the month as approved by the COTR.

Costs not to exceed $2,904,865.00

Ref Req No: SZ100543

Funding Information:

2010 - - WH - 6941 - - 252Z - - WHARA - - - EFAD67 - - 1A - -

$2,904,865.00

Line Item Number	Description	CLIN Ref	(Start Date to End Date)	Quantity	Unit of Issue	Unit Price	Total Cost (includes Discounts)
0002	Travel	0002	(06/01/2010 to 05/31/2011)	1.00	LO	$15,000.000	$ 15,000.00

Travel required by the contractor in the performance of this contract shall be invoiced on an actual cost basis.

Incurred travel costs will be in accordance with the Federal Travel Regulation and FAR 31.205-46

Travel Estimated NTE $15,000.00

Travel has been fully funded.

No G&A has been proposed for travel

Ref Req No. SZ100543

Funding Information:

2010 - - WH - 6941 - - 252Z - - WHARA - - - EFAD67 - - 1A - -

$15,000.00

Line Item Summary	Document Number	Title	Page
	N10PB020006	USDA	3 of 3

Total Funding: $2,924,865.00

FYs	Fund	Budget Org	Sub	Object Class	Sub	Program	Cost Org	Sub	Proj/Job No	Sub	Reporting Category
2010	WH	6941		252Z		WHARA			EFAD67		1A

Division   Closed FYs   Cancelled Fund

Line Item Number	Description	CLIN Ref	(Start Date to End Date)	Quantity	Unit of Issue	Unit Price	Total Cost (Includes Discounts)
0003	Training	0003		1.00	LO	$5,000.000	$5,000.00
			(06/01/2010 to 05/31/2011)				

Training costs NTE $5,000.00

G&A of 34% has already been applied to and incorporated into the estimated cost.

Ref Req No: SZ100543

Funding Information:

2010 - - WH - 6941 - - 252Z - - WHARA - - - EFAD67 - - 1A - -

$5,000.00

Total Cost: $2,924,865.00

VENDOR CODE: 019121586

202-720-0914 (Office)
202-450-0074 (Mobile)

INVOICING INSTRUCTIONS

The contractor shall submit an original invoice(s) to the Contracting Officer's Technical Representative identified above, and one copy of invoice(s) to the Government Contract Administrator. The COTR shall certify invoices for services received and shall submit them to the payment office within five (5) working days after receipt. The COTR will also ensure that the certified invoice is emailed to: Ft_Huachuca_Pay_NBCDENVER@nbc.gov.

The final invoice will be identified as "Final Invoice" certified by the COTR and emailed to Ft_Huachuca_NBCDENVER@nbc.gov.

Copy of certified final invoice will be forwarded by the COTR to the Government Contract Administration listed above.

PAYMENT OFFICE

The payment office for this effort is:

Department of the Interior/National Business Center
ATTN: Denver Payment Office
Fiscal Support Section – D2730 – FH
7301 W Mansfield Ave
Denver, CO 80235-2230

Fax: 303-969-7281
Email: Ft_Huachuca_Pay_NBCDENVER@nbc.gov

FAR CLAUSE(S) INCORPORATED BY REFERENCE:

All of the applicable clauses of the GSA contract shall apply. The following clauses, whether or not already included in the GSA contract, are hereby incorporated by reference: 52.203-15, 52.204-11, 52.212-4, 52.212-5 (Alt. II), 52.215-2 (Alt. I), 52.227-14, 52.227-15, 52.227-16, and 52.244-6. Order of precedence should be determined.
Full text copies available at:

http://farsite.hill.af.mil

ORDER OF PRECEDENCE

In accordance with 48CFR52.215-8, the Order of Precedence is as follows:

ORDER OF PRECEDENCE—UNIFORM CONTRACT FORMAT (OCT 1997)

Any inconsistency in this solicitation or contract shall be resolved by giving precedence in the following order:

(a) The Schedule (excluding the specifications)

(b) Representations and other instructions.

(c) Contract clauses.

(d) Other documents, exhibits, and attachments.

(e) The specifications.

REPORTING REQUIREMENTS

Section 1512 of the Recovery Act provides that recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that, the amount spent on projects and activities;
- A list of those projects and activities funded by name to include:
    - Description
    - Completion Status
    - Estimates on jobs created or retained; and
- Details on sub-awards and other payments.

Further details of data elements required may be found in the Recipient Reporting Data Model located at www.FederalReporting.gov in the Downloads section.

Recipients must report on the number of jobs created and/or retained using the Office of Management and Budget (OMB) full-time-equivalent (FTE) methodology. This is described in Section 5.3 of "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates" (M-10-08).

To estimate the number of jobs created or retained, recipients will need to add up the total number of hours worked that are paid for by Recovery Act funds and then divide the number of hours in a full-time schedule for the quarter (typically 520 hours).

Example: Assume that a recipient's Recovery Act funds paid for two full-time employees and one part-time employee who worked half days for the quarter. Also assume that the recipient's full-time schedule for the quarter is 520 hours (2,080 hours in a work-year divided by 4). To convert hours worked to number of FTE for the quarterly report, aggregate all hours worked and divide by the number of hours in a full-time schedule for the quarter.
In this example, two full-time employees each worked 520 hours (1,040 hours combined) + one employee worked half-time or 260 hours for a total of 1,300 hours worked. Divide this total

number of hours worked by the number of hours in one full-time schedule for the quarter: 1,300 ÷ 520 = 2.5 FTE reported for jobs created and/or retained.

PRE-CONTRACT COST AGREEMENT

Allowable costs under this contract shall include such costs, incurred by the contractor in connection with the work covered by this BPA Call during the period from June 1, 2010 through the date of BPA Call award, as would have been allowable pursuant to the terms of this contract, had this BPA Call been in effect during said period; provided, however, that such costs shall not, in the aggregate exceed $487,477.00, which is included in the estimated cost of the anticipated resulting BPA Call.

STATEMENT OF WORK

U.S. DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

ERP Services / EPMO

MIDAS 102-2010 – ERP Support Services

Procurement Baseline

Version Control Table

Version	Author	Date	Summary of Changes
1.0	USDA/FSA	1/7/2010	MIDAS FSA Call 102-2010 for Submission to DOI
1.1	USDA/FSA	3/13/2010	Additional deliverables added
1.2	USDA/FSA	3/16/2010	Addressed comments from Keller
1.3	USDA/FSA	3/18/2010	Addressed comments from internal review.
1.4,5,6	USDA/FSA	3/21/2010	Final comments and markups addressed
1.6	USDA/FSA	3/22/2010	Minor grammatical corrections.
1.7	USDA/FSA	3/24/2010	Final changes after review with vendor.
1.8	USDA/FSA	3/25/2010	Added 11.3 Task
1.9	USDA/FSA	4/20/2010	Added EVMS language
2.0	USDA/FSA	5/4/2010	Changed to T & M
2.1	USDA/FSA	5/10/2010	Took out the Justification so DOI could use it for T & M justification

Table of Contents

A.1 ERP PMO Call – 2 – ePMO Program Governance & Operations

A.1.1 BPA Call 102-2010 Scope

The objective of this Call is to provide the project management services to continue developing implementing and operating the ePMO governance processes, structures, vision, communication, oversight, concepts, and roles of the various IT organizations that make up the modernization initiatives, and an SAP Center of Excellence (COE). The objective is to initially provide a MIDAS centric support and then incrementally expand to include critical modernization programs.

A.1.2 BPA Call 102-2010 Objectives and Reporting Deliverables

Table 1 defines the objectives for Call 102-2010.

Table 1 - Call 102-2010 Objectives

BPA Area	Work Streams	Objectives

A.1	A.1 Implement and Operate the ePMO	• Assist in socializing ePMO (policies, procedures and tools) to gain buy-in from stakeholders and begin to implement, operate and maintain the ePMO and ensure compliance to approved governance.
		• Support ePMO implementation and provide training on ePMO processes to required staff and contractors as needed. The objective is to initially provide a MIDAS centric implementation approach and then incrementally expand to include critical modernization programs.
		• Operate the ePMO.
		    o Collect (and enforce collection) of project level data (cost, schedule, scope, risk, communication, performance roadmap, issues, etc.)
		    o Analyze project data, program dependencies, risks and then present findings and recommended corrective actions.
		    o Develop and present ePMO level reports, briefings, roadmaps, dashboard, and communications.
		    o Provide project administrative support (meeting minutes, decision, action logs, communication, etc.) to facilitate the operations of the ePMO.
		• Facilitate lessons learned sessions and document and present findings to support continuous ePMO process improvement.

A.3	A.3 Strategic Planning	• Facilitate quarterly strategic vision and planning session needed to align MIDAS with enterprise-level modernization business and IT strategies. Develop, document, and maintain

BPA Area	Work Streams	Objectives
		MIDAS centric mission and strategy artifacts. • Assess the current MIDAS Initiatives and provide recommendations to align with the enterprise and project roadmaps. • Develop/refine Strategic Plan, Program, and Project briefings, Reports, and Presentations, as required.
A.4	A.4 Strategic and Technical Studies	• As required, conduct independent business and /or technical analytical analysis of modernization initiatives to support federal decision-making. Develop, document and maintain these deliverables.
A.5	A.5 Governance	• Assist in socializing ePMO governance requirements (e.g., facilitating MIDAS PDDC & SMOC, RM boards, taking minutes, driving actions, and monitoring execution of project-level charters). • With input from the MIDAS system integrator, establish and support operations of Requirements Management governance, boards, tools (RM, BPM tools) and control processes. • Drive continuous governance processes improvement
A.6	A.6 Acquisition and Contract Management	• Support the definition, development, and review of new planned task orders for MIDAS implementation vendors
A.7	A.7 Enterprise Architecture Analysis and Evaluation	• Provide planning, technical and management oversight of MIDAS interactions in the areas of enterprise architecture, data management, and business process management.
A.8	A.8 Develop PMO Processes and Tools	• Drive continuous improvement for ePMO processes and tools. • Create and refine new processes for ePMO and provide training on procedures, methodologies, and tools developed. • Assist in socializing new ePMO procedures, methodologies, and tools developed.
A.10	A.10 Perform Project Assessments	• Provide detailed review and oversight of implementation vendor's program/project management approaches and artifacts throughout lifecycle according to the implementation vendor's schedule. • Support MIDAS gate review process. • Provide MIDAS Integrated Baseline Review (IBR) facilitation and support of MIDAS SI/IV&V kickoffs
A.11	A.11 Stakeholder and Communications Management	• Develop presentations, reports, web content, awareness events, and forum to socialize the ePMO Communications Plan for current initiatives – MIDAS, BPMS, EDW, FSA FMMI (e.g., town hall support, FSA Roadmap road show) • Support the OCM strategy development and execution of OCM

BPA Area	Work Streams	Objectives
		activities during the MIDAS planning phase • Support the establishment of an Executive Organizational Change Management (OCM) Board/Charter. • Support the execution of OCM planning activities and strategy formulation. • Support the facilitation of FSA employee meetings to inform key stakeholders of the MIDAS centric FSA Modernization Initiatives. Provide and present briefing materials for the meetings and capture questions/lessons learned
A.12	A.12 IT / ERP Support	• Provide technical management and oversight of MIDAS implementation vendor approaches and artifacts. Deliver risk assessment reports, corrective action recommendations and present briefings.
A.13	A.13 Develop the FSA SAP Knowledge Center Vision	• Establish the vision, objectives, approach, and implementation plan for the SAP Knowledge Center. • After approval of the implementation plan, support the management and oversight of the implementation.

All ePMO services/products under the Call Order must meet applicable industry best practice requirements. These practices will implement, deploy, and maintain ERP ePMO capabilities to modernize and transform systems and to re-engineer business processes throughout the USDA. This requirement will apply to all current services available as well as any future services introduced into the marketplace to meet the agencies' needs.

The industry best practices include:
• Project Management Body of Knowledge (PMBOK®) – this methodology will serve as the foundation for the Contractor's proposed PM structure and the proposed implementation strategy for ATM at the UDSA
• Information Technology Infrastructure Library (ITIL®).
• Capability Maturity Model Integration (CMMI®) validates the existence of repeatable processes which are practiced across the organization. Given the vast level of complexity inherent in SAP® implementations, it is imperative that the Contractor possess a regimented, standardized process for project management processes.
• Lean Six Sigma (LSS) – the Contractor shall be knowledgeable of LSS as the USDA

o ASAP implementation methodology
o RunSAP for system operations and monitoring
o Master Data Management
o Solution Manager Enterprise Edition
o Organization Change Management
o SAP® Blueprinting and Landscape
These SAP® Best Practices are consistent with industry standards and can be found in the numerous SAP® Press documents.

• IEEE standards for system life cycle, quality, risk management and IV&V. These standards include but are not limited to IEEE 12207 and IEEE 1012. IEEE 1012 will be the basis for IV&V activities that the ATM System Integrator shall support.
• DAMA - DMBOK – Guide to the Data Management Body of Knowledge and provides the best practices for the development of data management strategies, legacy data migration, and development of data management systems.
• NIST –NIST standards and guidelines for IT Security.

Earned Value Management

On the MIDAS project, all work packages are required to be loaded with the resources required to accomplish the work of the packages. For human resources, this loading is done in effort hours. This is required of all contractors no matter what type of contract has been awarded. For Fixed Price type contracts, the loading may be left as effort hours only and labor rates can be eliminated from the baseline. For any other type of contract the negotiated labor rate must be used in the baselined Control Account Plan (CAP) so the budgets of the CAP can be controlled. All earned value reporting should be reported in both dollars and effort hours so that project management performance is measurable and transparent.

The Contractor shall manage the ATM SI BPA with the use of a certified Earned Value Management System (EVMS) that is compliant with the guidelines in ANSI/EIA Standard 748 (current version at time of award). The EVMS shall be used on all task orders issued under the BPA regardless of task order type, i.e. both FFP and T&M are subject to earned value reporting. Each task order under the ATM SI BPA shall establish a Performance Measurement Baseline that shall serve as the baseline for measuring task order performance.

The contractor will provide an MSProject file with earned value cost data for the OCIO report. This file shall contain their baseline costs for the BCWS and BAC when the schedule is baselined. Every reporting period the contractor shall provide earned value cost data in the MSProject file. If they are not using MSProject to calculate the BCWP or capture the ACWP they shall enter their BCWP at the control account level in the MSProject plan Cost 10 field and their ACWP at the control account level in the fixed cost field of MSProject.

A.1.3 Period of Performance

The period of performance shall be 12 months with a 6 month option period. All key personnel shall be available to start work immediately upon Call award. The period of performance includes, time for staff to come on board and begin work.

A.1.4 Call Type

Call shall be Time and Materials (T&M). T&M tasking must be approved through the COTR and Change Control Board prior to work commencement. Any work in excess of the standard 40 hour work week must have prior approval from the COTR. Any personnel changes must have labor category approval from the COTR.

A.1.5 Place of Performance

Call shall be performed primarily at government facilities located at Park Office Center, 3101 Park Center Drive Alexandria, VA 22302.

A.1.6 Key Personnel

The Contractor shall provide the Project Manager, Deputy Project Manager, SAP Technical Architect consultant and Project Controls Lead as key personnel for the Call. The Key Personnel shall possess the required education, experience, certifications, and security clearances to perform under this contract. The contractor shall provide resumes for all Key Personnel for government written approval prior to on boarding. All Key Personnel shall be dedicated full-time on the Task Order. For non-key personnel, the contractor shall provide resumes for government written approval prior to on boarding based on MOBIS labor category descriptions. It is desired that all staff be ITIL Foundation Certification for either ITIL v.2 or v.3.

Project Manager:

The **Project Manager** shall possess 10 + years experience with the execution and management of large, complex IT development efforts. This includes 5 + years of direct experience in leading and executing enterprise-wide SAP implementation efforts. The Project Manager shall also possess the following:

- Demonstrated experience in planning, directing, and managing complex SAP implementation projects of a nature similar in size and scope as referenced in the Blanket Purchase Agreement.
- Demonstrated experience managing PMOs.
- Demonstrated experience with the management and supervision of employees of various labor categories and skills in projects similar in size and scope as proposed in the Blanket Purchase Agreement.
- Demonstrated ability for oral and written communication with the highest levels of management.
- Demonstrated experience managing diverse requirements with competing requirements for work similar in scope to that in the Blanket Purchase Agreement.

Education

- Possesses a BS degree or higher in Information Systems, Computer Science, Engineering, Business, or related field.
- Shall have PMP certification.

Deputy Project Manager

The Deputy **Project Manager** shall possess 7 + years experience with the execution and management of large, complex IT development efforts. This includes 3 + years of direct experience in leading and executing enterprise-wide SAP implementation efforts. The Project Manager shall also possess the following:

- Demonstrated experience in planning, directing, and managing complex SAP implementation projects of a nature similar in size and scope as referenced in the Blanket Purchase Agreement.
- Demonstrated experience in managing PMOs.
- Demonstrated experience with the management and supervision of employees of various labor categories and skills in projects similar in size and scope as proposed in the Blanket Purchase Agreement.
- Demonstrated ability for oral and written communication with the highest levels of management.
- Demonstrated experience managing diverse requirements with competing requirements for work similar in scope to that in the Blanket Purchase Agreement.

Education

- Possesses a BS degree or higher in Information Systems, Computer Science, Engineering, Business, or related field.

SAP Technical Architect Consultant

The **SAP Technology Architect Consultant** shall possess 8+ years experience with SAP technical implementations in large environments (similar to MIDAS effort) that include Security, Basis, Development, Integration, and Service Oriented Architecture (SOA). The consultant shall have 5 + years experience with multiple full-cycle implementations across various customers and industries (recommended). The SAP Technical Consultant shall also possess:

- Broad knowledge across multiple information technologies, standards, and methodologies
- Expertise in SAP technology and architecture
- Thought leadership within at least one technical or infrastructure domain
- Knowledge of enabling the capabilities of the SAP Business Process Platform
- Soft skills including leadership, presenting/public speaking and workshop

Education

- Possesses a BS degree or higher in Information Systems, Computer Science, Engineering, Business, Math, or related field.

- Desired SAP Technical Architect certification.
- Desired ITIL Foundation Certification for either ITIL v.2 or v.3

Project Controls Lead
The Project Controls Lead shall possess 7 to 10 years experience with the execution and management of ANSI 748-A compliant earned value management systems and integrated cost and schedule control with large complex efforts. Experience shall also include the following:

1. Earned Value Management of complex Government IT programs
2. Baseline schedule development and control of resource loaded risk adjusted schedules
3. Capital Planning and Investment Control
4. Managing Work Breakdown Structures and WBS Dictionaries
5. Development of Cost Performance Reports (formats 1 – 5)
6. Experience with Integrated Baseline Reviews (IBR)

Education:

- Possesses a BS degree or higher in Information Systems, Computer Science, Engineering, Business, or related field
- Shall have PMP or EVP Certification

All Key Personnel must be current employees of the contractor or subcontractor; contingent hires or "1099" personnel may not be designated as key.
Prior to removing, replacing, or diverting any of the specified individuals, the Contractor shall notify the Contracting Officer via the Contracting Officer's Technical Representative reasonably in advance (but not less than 30 days) and shall submit written justification (including proposed substitutions' resumes) in sufficient detail to permit evaluation of the impact on this Task Order. The Contractor shall make no diversions in key personnel without the prior written consent of the Contracting Officer.

A.1.7 Call Other Direct Cost

The Contractor shall identify other direct costs including travel costs associated with the Call. All travel shall be previously approved and shall not exceed the agreed upon amount. Travel authorization forms will be supplied upon task order award. Before traveling, all personnel must obtain a signed copy of the travel authorization. All travel will be in accordance with government travel regulations.

A.1.8 Call Response

To respond to this call, the vendor must technically provide:

- The implementation guide describing the approach to satisfy the requirements of this call in the time frame allotted;

- A detailed, resource loaded schedule of tasks with proposed deliverables in MS Project:
- A detailed WBS and WBS dictionary:
- Key Personnel and management team (including resumes) supporting this task;
- Any technical assumptions or constraints; and,
- The focus of the technical response should primarily be on the base period.

For the cost proposal, please provide:

- A total labor cost + ODC costs;
- T&M costs shall include a summary of hours and total costs by deliverable group.
- For all work, identify the proposed labor categories, hours by month, staff names (if identified) by work stream in MS excel format;
- Any cost assumptions or constraints;
- On site/off site rates and discounts for personnel; and,
- Provide all cost information for the base period and option period.

A.2 American Recovery and Reinvestment Act of 2009.

This Task Order is subject to the requirements for the American Recovery and Reinvestment Act of 2009. The Contractor shall conform to all reporting requirements of this Act and subsequent FAR, policy, management directives and procedures established to conform to the Act.

A.3 Non-Disclosure Requirements

The personnel assisting the USDA with the activities described above may be exposed to business sensitive information regarding the USDA efforts or data. Except through official USDA channels with prior written approval of the CO, the Contractor and their staff agrees in performing work under this order not to disclose any data or information related to this effort or discovered during the course of the performance of work for this effort. The component parts of this effort and reports are expected to contain sensitive information that could act as a guide for hostile entities to cause harm to the USDA's critical infrastructure. Any such information made available in any format shall be used only for the purpose of carrying out the provisions of this agreement. Such information shall not be divulged or made known in any manner to any person. The Contractor shall immediately notify the CO upon discovery of any inadvertent disclosures of information. The Contractor shall not retain any information regarding vulnerabilities, to include summaries, the actual vulnerability report, etc., at the end of the period of performance. All information arising from this effort, both hard copy and electronic, shall be returned to the Government at the conclusion of the effort.

A.4 HSPD-12 Requirements

The personnel assisting the USDA with this Task Order will also be subject to new on-boarding requirements as detailed in Notice AO-1459 "*New HSPD-12 Procedures for Personal Identity Verification (PIV) – LincPass Registration for Contractor Employees.*" All contractor personnel are required to follow these procedures in order to be in compliance for employment.

A.5 Deliverable Descriptions

The following suggest minimum activities and deliverables for the accomplishment of the effort. All deliverables are required to meet the objectives in Section A.1. The vendor is encouraged to suggest other tasks, deliverables or best practices in their quotes that would achieve the requirements and objectives of this call. For ease of review and understanding the titles of the work streams match the BPA document. Specific activities are outlined in this call. For all deliverables, except for items such as status reports, the contractor shall develop deliverable product description document, deliverable templates, and draft and final documents.

Deliverable ID	Name	Minimum Required Content
C1 EPMO Contract/Project Management		
C1.1	EPMO Call Kickoff Review	• Prepare a summary and briefing of the proposed task solution to present to an extended audience including both FSA/Department/Contractor personnel. • Review and discuss performance expectations/schedules/Implementation Guide. • Clarify outstanding issues/risks.
C1.2	Deliver Call Baseline Package	• Provide the baseline for the Call scope of work, costs, resources and schedule. • The package shall include, at a minimum, the reviewed resource loaded schedule, identified control accounts, contractor WBS dictionary and assumptions. • The baseline package must be review and vetted by the CCB prior to completion.
C1.3	Call Project Management Plan & Product Description Documents	• Update the ePMO Project Management Plan (based on PMI PMBOK) and EVMS ANSI guidelines for how the Call will be planned, managed, resourced and controlled.
C1.4	Weekly Status Reports	• Deliver weekly status reports by Friday COB. • Status Reports must include (at a minimum),

Deliverable ID	Name	Minimum Required Content
		o Technical Status and performance metrics o Schedule Status (Updated Schedule) o Budget Status o Changes in Risk Status o Issues and Action Items
C1.5	Monthly Status Reports	• Deliver monthly status reports due 10 business days after the end of each month. • Monthly status report must include (at a minimum): o Technical Status and performance metrics o Schedule/EVMS Status (CPR Formats 1-5) o Budget Status o Risk Status o Staffing Status (and detailed actual and planned hour log for all staff on the task order). o Issues and Action Items. • Deliver monthly EVMS reports as described in the MIDAS CPR Guide, as of the last day of each month, for OCIO reporting due by the 5 business days after the end of each month. This includes an MSProject file, containing all of the data that make up the earned value reporting, and an XML file to facilitate independent earned value analysis for the reporting process.
A.1	**• Implement and Operate the ePMO**	
A.1.1	Monthly ePMO Operations and Operation Report	• A report that includes the ePMO status, artifacts and outputs of the ePMO modernization operations. This is not a contractor status report, but rather a consolidated report on the activities of the enterprise modernization PMO. All artifacts should be provided in soft copy and updated in SharePoint.
A.3	**Strategic Planning**	
A.3.1	Quarterly Strategic Vision and Planning Session Reports	• A report that includes the ePMO status, artifacts and outputs of the ePMO strategic planning. This is not a contractor status report, but rather a consolidated report on the strategic planning activities of the enterprise modernization PMO.

Deliverable ID	Name	Minimum Required Content
		All artifacts should be provided in soft copy and updated in SharePoint.
A.4	**Strategic and Technical Studies**	
A.4.1	Conduct Independent Business and/or Technical Analytical Analysis of Modernization Initiatives to Support Federal Decision-Making.	• As required, develop, document and maintain deliverables containing business and/or technical analytical analysis to support federal decision-making.
A.5	**Governance**	
A.5.1	Monthly Governance Operations Report	• A report that includes the ePMO status, artifacts and outputs of the Governance operations. This is not a contractor status report, but rather a consolidated report on the governance activities and outputs of the modernization PMO. All artifacts should be provided in soft copy and updated in SharePoint. • Facilitate PDDC, SMOC and Requirements Management meetings, by taking minutes, driving actions, and monitoring execution of project-level charters.
A.5.2	Establish Requirements Management Governance and Control	• With input from the System Integrator establish requirements management governance and control processes. This deliverable will provide findings and recommendations on the governance and control of requirements. The deliverable also includes reviewing and vetting the initial system implementation and approval processes. • Develop continuous improvement processes in the form of documents/lessons learned suggesting improvements needed.
A.6	**Acquisition and Contract Management**	
A.6.1	Planning and Task Order Support	• Define, develop, and review new task orders for MIDAS implementation vendors.
A.7	**Enterprise Architecture Analysis and Evaluation**	
A.7.1	MIDAS EA Support	• Provide planning, technical and management oversight of MIDAS interactions in the areas of enterprise architecture, data management, and business process management.
A.8	**Develop PMO Processes and Tools**	
A.8.1	Quarterly ePMO Process	• A report that includes the ePMO status, artifacts

Deliverable ID	Name	Minimum Required Content
	Improvement Management Report	and outputs of the ePMO process improvements work. This is not a contractor status report, but rather a consolidated report on the ePMO processes improvement activities of the enterprise modernization PMO. All artifacts should be provided in soft copy and updated in SharePoint.
A.10	**Perform Project Assessments**	
A.10.1	Project Planning and Gate Reviews	• Provide detailed review and oversight of MIDAS implementation vendor's program/project management plans, approaches, schedules and artifacts throughout the life cycle. These will be delivered as Findings Reports/Documents. • Support the management, oversight and participate in the execution of MIDAS gates reviews. This will be delivered as a report documenting the findings.
A.10.2	IBR and Kickoff Support	• Facilitate IBRs and kickoffs by setting up locations, capturing meeting minutes/questions, and documenting findings.
A.11	**Stakeholder and Communications Management**	
A.11.1	Socialize Communications Plan	• Develop presentations, reports, web content, awareness events, and forum to socialize the ePMO Communications Plan for current initiatives – MIDAS, BPMS, EDW, FSA FMMI (e.g., town hall support, FSA Roadmap road show)
A.11.2	Organizational Change Management (OCM) Board/Charter.	• Support the establishment of an Executive Organizational Change Management (OCM) Board/Charter.
A.11.3	Support the execution of OCM planning activities and strategy formulation.	• Develop an OCM brief identifying OCM activities to be executed during the MIDAS planning phase and how they align with the OCM strategy.
A.11.4	Facilitate Employee Meeting	• Facilitate an FSA employee meeting by providing and presentation materials to communicate the modernization efforts. Meeting minutes and questions shall also be captured.
A.12	**IT/ERP Support**	
A.12.1	Integrated Enterprise SAP Support	• Ensure that FSA and USDA have the proper knowledge, information, and options to plan for and move towards an integrated enterprise USDA

Deliverable ID	Name	Minimum Required Content
		SAP solution and landscape in order to test the configuration of the business processes. These deliverables will be in the form of presentations, Findings reports, Landscape briefings, knowledge transfer, and technical papers/documents.
A.12.2	Contractor Deliverable Review Support	• Develop risk assessment reports, recommendations and briefings regarding technical management and oversight of MIDAS implementation vendor approaches and artifacts.
A.13	**Develop the FSA SAP Knowledge Center of Excellence**	
A.13.1	Establish SAP COE Vision and Plan	• Establish the vision, objectives, approach and implementation plan for the SAP's Knowledge Center. After approval of the plan, support the management and oversight of the implementation.

A.5.1 Deliverable Schedule

The following table outlines the deliverables expected to result from the above activities and the associated due dates for each deliverable. All due dates are based on business / working days and represent the date upon which the draft deliverable is available to the Government for review. The timeline for deliverable review is as follows:

- Day 0: ePMO contractor provides draft deliverable to the Government for review
- Day 7: Government provides review feedback to the ePMO contractor
- Day 10: ePMO contractor incorporates feedback and provides final deliverable to the Government
- Day 17: Government indicates final acceptance of deliverable

Draft deliverable submission assumes that the contractor has completed the required product description documents (PDDs), template reviews, and interim reviews with government and project stakeholders. The contractor must receive government approval of PDDs before commencement of work on the deliverable. Changes to the deliverable review cycle or the deliverable due date, that do not impact the T&M ceiling, can and will be made through the MIDAS change control board and represented in the baselined schedule.

Deliverable ID	Name	Deliverable Due Date
C1 EPMO Contract/Project Management		
C1.1	EPMO Call Kickoff Review	• 3 days after award

Deliverable ID	Name	Deliverable Due Date
C1.2	Deliver Call Baseline Package	• 10 days after award
C1.3	Call Project Management Plan & Product Description Documents	• 20 days after award (PDDs due before execution of deliverable)
C1.4	Weekly Status Reports	• Weekly status report due every Friday COB • Participate in a weekly status meeting with COTR and documents actions/decisions of the meeting.
C1.5	Monthly Status Reports	• Monthly status reports due 10 business days after the end of each month. • Monthly EVMS/CPIC program as of the last day of the month (Due by the 5 business days after the end of each month.)
A.1	**Implement and Operate the ePMO**	
A.1.1	Monthly ePMO Operations and Operation Report	• Monthly
A.1.1	ePMO Training	• As needed
A.1.1	MIDAS Dashboard	• 120 days after award
A.1.1	Lessons Learned	• TBD (normally every 6 months and end or Period of Performance)
A.3	**Strategic Planning**	
A.3.1	Quarterly Strategic Vision and Planning Sessions	• Quarterly from the start of the Task Order (by the 7 business day three full months after award).
A.3.2	Enterprise Alignment Recommendations	• Quarterly
A.3.3	Vision and Strategic Plan Presentations/Briefings	• Quarterly
A.4	**Strategic and Technical Studies**	
A.4.1	Conduct Independent Business and/or Technical Analytical Analysis of FSA Modernization Initiatives to Support Federal Decision-Making.	• TBD
A.5	**Governance**	
A.5.1	Governance Operations and Continuous Improvement report	• Monthly
A.5.2	Establish Requirements Management	• Due 90 days after TO award.
A.6	**Acquisition and Contract Management**	
A.6.1	Develop Task Orders	• TBD

Attachment A
N10PB020006
Deloitte Consulting LLP

Deliverable ID	Name	Deliverable Due Date
A.7	**Enterprise Architecture Analysis and Evaluation**	
A.7.1	MIDAS EA Support	• TBD
A.8	**Develop PMO Processes and Tools**	
A.8.1	Quarterly ePMO Process Management report	• Quarterly from the start of the Task Order (by the 7 business day three full months after award).
A.10	**Perform Project Assessments**	
A.10.1	Project Planning and Gate Reviews	• As determined by MIDAS Implementation Vendor's Schedule
A.10.2	IBR and Kickoff Support	• As determined by vendor's schedules
A.11	**Stakeholder and Communications Management**	
A.11.1	Socialize Communications Plan	• TBD
A.11.2	Organizational Change Management (OCM) Board/Charter.	• TBD
A.11.3	Support the execution of OCM planning activities and strategy formulation.	• TBD
A.11.4	Support FSA Employee Meetings	• TBD
A.12	**IT/ERP Support**	
A.12.1	Integrated Enterprise SAP Solution and Landscape	• TBD
A.12.2	Contractor Deliverable Review Support	• TBD
A.13	**Develop the FSA SAP Knowledge Center of Excellence**	
A.13.1	Establish SAP Vision and Support Management and Oversight of Approved Plan	• Vision (Due 75 days after TO award). • Management and Oversight (on going)

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEM
OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, & 30

1. REQUISITION NUMBER: 420841
PAGE 1 OF 2

2. CONTRACT NO.: AG-3142-B-09-0032
3. AWARD/EFFECTIVE DATE:
4. ORDER NUMBER: AG-3142-K-10-0164
5. SOLICITATION NUMBER:
6. SOLICITATION ISSUE DATE:

7. FOR SOLICITATION INFORMATION CALL: a. NAME: RODNEY NELSON
b. TELEPHONE NUMBER (No collect calls): 202-205-8961
8. OFFER DUE DATE/LOCAL TIME:

9. ISSUED BY — CODE DASO-OPPM-POD
USDA, OPPM-POD/ INFORMATION TECHNOL
300 7th St., S.W.
Suite 377
Attn: IT Contracts Team
Washington DC 20024

10. THIS ACQUISITION IS ☒ UNRESTRICTED OR ☐ SET ASIDE: % FOR: ☐ SMALL BUSINESS ☐ EMERGING SMALL BUSINESS ☐ HUBZONE SMALL BUSINESS ☐ Sole Source ☐ SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS ☐ 8(A)
NAICS: 541519
SIZE STANDARD: $25.0

11. DELIVERY FOR FOB DESTINATION UNLESS BLOCK IS MARKED ☐ SEE SCHEDULE
12. DISCOUNT TERMS: NET/30
13a. ☐ THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700)
13b. RATING
14. METHOD OF SOLICITATION ☐ RFQ ☐ IFB ☐ RFP

15. DELIVER TO — CODE FSA-WDC-ITSD-OD
ITSD OFFICE OF THE DIRECTOR
U. S. DEPARTMENT OF AGRICULTURE
1400 INDEPENDENCE AVE SW
MAIL STOP 0580
WASHINGTON DC 20250-0580

16. ADMINISTERED BY — CODE DASO-OPPM-PODIT-
USDA, OPPM-POD/ INFORMATION TECHNOL
300 7th St., S.W.
Suite 377
Attn: IT Contracts Team
Washington DC 20024

17a. CONTRACTOR/OFFEROR — CODE 1100139758# — FACILITY CODE
CARAHSOFT TECHNOLOGY CORPORATION
12369 SUNRISE VALLEY DRIVE
SUITE D-2
1100139758#
RESTON VA 20191-5471

TELEPHONE NO.

18a. PAYMENT WILL BE MADE BY — CODE FSA-WDC-ITSD-BAC
ITSD BUDGET ACQUISITIONS OFFICE
U. S. DEPARTMENT OF AGRICULTURE
1400 INDEPENDENCE AVE SW
MAIL STOP 0584
WASHINGTON DC 20250-0584

☐ 17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER
18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a UNLESS BLOCK BELOW IS CHECKED ☐ SEE ADDENDUM

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	GSA Contract #: GS-35F-0131R Tax ID Number: 52-2189693 DUNS Number: 088365767 PROFESSIONAL SERVICES FOR MIDAS PROJECT PERFORMANCE PERIOD: 6/24/2010 - 09/30/2011 COTR: Patrick Hanley, POC: Church Benjamin Submit Invoices to: Julie Hilding Delivery: 09/30/2011 Agency Code (4): 05 Program Code (25): ZZZZZZZZZ BOC: 2540 Sub BOC (2): 04 Cost Org (7): ZZZZZZZ Continued ...				

(Use Reverse and/or Attach Additional Sheets as Necessary)

25. ACCOUNTING AND APPROPRIATION DATA: 05.10.ZZ.84.98184.ZZ.ZZZZZZZ.ZZ.ZZZZZZZZZ.2540.04.2697.ZZZZ
26. TOTAL AWARD AMOUNT (For Govt. Use Only): $4,180,000.00

☐ 27a. SOLICITATION INCORPORATES BY REFERENCE FAR 52.212-1, 52.212-4. FAR 52.212-3 AND 52.212-5 ARE ATTACHED. ADDENDA ☐ ARE ☐ ARE NOT ATTACHED
☐ 27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4. FAR 52.212-5 IS ATTACHED. ADDENDA ☐ ARE ☐ ARE NOT ATTACHED

☐ 28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN ______ COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED HEREIN

☒ 29. AWARD OF CONTRACT: REF. ______ OFFER DATED ______. YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:

30a. SIGNATURE OF OFFEROR/CONTRACTOR
31a. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)

30b. NAME AND TITLE OF SIGNER (Type or print)
30c. DATE SIGNED
31b. NAME OF CONTRACTING OFFICER (Type or print): VIVIAN McPHERSON
31c. DATE SIGNED

AUTHORIZED FOR LOCAL REPRODUCTION
PREVIOUS EDITION IS NOT USABLE

STANDARD FORM 1449 (REV. 3/2005)
Prescribed by GSA - FAR (48 CFR) 53.212

19. ITEM NO	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	Job Code (8): 2697 Sub Cost Org (2): ZZ Budget Yr Start (2): 10 Budget Yr End (2): ZZ Fund (6): 84 Budget Org (7): 98184 Sub Budget Org (2): ZZ Report Category (4): ZZZZ Period of Performance: 06/24/2010 to 09/30/2011				
001	Professional (Consulting) Services for MIDAS Project Total amount includes: (See page 3 for CLIN breakdown) Project Mgmt @ $1,150,080 Design Analysis /Product Support @ $1,258,560 Solution Manager @ $1,162,720 Workshops @ $193,280 Travel, NTE $415,360 without authorization from the contracting officer or Program Mgr. Will be paid as reimbursable in accordance with Federal Travel Regs. Product/Service Code: D302 Product/Service Description: ADP SYSTEMS DEVELOPMENT SERVICES The total amount of award: $4,180,000.00. The obligation for this award is shown in box 26.	4180000	DO	1.00	4,180,000.00

32a. QUANTITY IN COLUMN 21 HAS BEEN
☐ RECEIVED ☐ INSPECTED ☐ ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED.

32b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE	32c. DATE	32d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE
32e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE		32f. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE 32g. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE

33. SHIP NUMBER	34. VOUCHER NUMBER	35. AMOUNT VERIFIED CORRECT FOR	36. PAYMENT	37. CHECK NUMBER
☐ PARTIAL ☐ FINAL			☐ COMPLETE ☐ PARTIAL ☐ FINAL	
38. S/R ACCOUNT NUMBER	39. S/R VOUCHER NUMBER	40. PAID BY		

41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT		42a. RECEIVED BY (Print)	
41b. SIGNATURE AND TITLE OF CERTIFYING OFFICER	41c. DATE	42b. RECEIVED AT (Location)	
		42c. DATE REC'D (YY/MM/DD)	42d. TOTAL CONTAINERS

USDA UNITED STATES DEPARTMENT OF AGRICULTURE iProcurement

Shopping Cart Home Logout Preferences Help

Shop Requisitions Receiving

Requisitions | Notifications | Approvals
Requisitions. Requisitions >

Standard PO : AG-3142-K-10-0164 Revision 0 (Total USD 4180000.00)

Ok

420841

Order Information

General Information

Standard PO	AG-3142-K-10-0164
Total	4180000.00 (USD)
Supplier	CARAHSOFT TECHNOLOGY CORP
Supplier Site	522189693 B
Address	12369 SUNRISE VALLEY DRIVE SUITE D2 522189693 B RESTON, VA 20191
Buyer	McPHERSON, VIVIAN
Order Date	20-Jul-2010 09:13:23
Description	MIDAS SAP Consulting Services
Status	Approved
Note to Supplier	
Organization	USDA-OU
Supplier Order Number	
Attachments	None

Terms and Conditions

Payment Terms	NET/30
Carrier	
FOB	
Freight Terms	
Shipping Control	

Bill-To Address

Bill-To Address	P.O. BOX 60000 NEW ORLEANS, LA 70160

Ship-To Address

Ship-To Address	U. S. DEPARTMENT OF AGRICULTURE 1400 INDEPENDENCE AVE SW MAIL STOP 0680 WASHINGTON , DC 20250-0580

PO Details

TIP Click on the Show link to view shipment details of a line

Indicates new values
Indicates cancellation request

Show All Hide All

Details	Line /	Type	Item	Job	Supplier Item	Description	UOM	Quantity	Price (USD)	Amount (USD)	Contractor Name	Status	Reason	Global Agreement	Attachments	Price Differentials
Show	1	Goods				Professional (Consulting) Services for MIDAS Project Total amount includes: (See page 3 for CLIN breakdown) Project Mgmt @ $1,150,080 Design Analysis /Product Support @ $1,256,560 Solution Ma	DOLLAR US	4180000	1	4180000.00		Open				

Ok

Shop | Requisitions | Receiving | Shopping Cart | Home | Logout | Preferences | Help

Copyright (c) 2006, Oracle. All rights reserved.

Privacy Statement

ORDER FOR SUPPLIES AND SERVICES

IMPORTANT: See instructions in GSAR 553 370-300-1 for distribution

PAGE 1 OF 2 PAGES

1. DATE OF ORDER	2. ORDER NUMBER	3. CONTRACT NUMBER	4. ACT NUMBER
08/20/2010 12:04:00 PM	GSTFMGBPA100001C0001A	GS35F4594G	21480201

FOR GOVERNMENT USE ONLY

5. ACCOUNTING CLASSIFICATION

FUND	ORG CODE	B/A CODE	O/C CODE
299X	A00VR290	F2	25
FUNC CODE C01	C/E CODE 516	PROJ./PROS. NO.	CC-A
W/ITEM	CC-B	PRT./CRFT	

6. FINANCE DIVISION

AC	SS	VENDOR NAME
		Systems Research and Applications Corporation
MDL	FI	G/L DEBT
AI	LC	DISCOUNT

7. TO: CONTRACTOR (Name, address and zip code)
Systems Research and Applications Corporation
4300 FAIR LAKES CT
FAIRFAX, VA, 22033-4232
Phone: 703-227-8248 Fax. 703-803-1509

8. TYPE OF ORDER
☐ A. PURCHASE
REFERENCE YOUR

Please furnish the following on the terms specified on both sides of the order and the attached sheets, if any, including delivery as indicated

☒ B. DELIVERY

This delivery order is subject to instructions contained on this side only of this form and is issued subject to the terms and conditions of the above numbered contract

C. MODIFICATION NO 00
AUTHORITY FOR ISSUING FAR 8.4

Except as provided herein, all terms and conditions of the original order, as heretofore modified, remain unchanged

9A. EMPLOYER'S IDENTIFICATION NUMBER
541013306

9B. CHECK, IF APPROP.
☐ WITHHOLD 20%

10A. CLASSIFICATION
☐ A. SMALL BUSINESS ☒ B. OTHER THAN SMALL BUSINESS ☐ C. SMALL DISADVANTAGED ☐ D. SMALL WOMEN-OWNED

10B. TYPE OF BUSINESS ORGANIZATION
☒ A. CORPORATION ☐ B. PARTNERSHIP ☐ C. SOLE

11. ISSUING OFFICE (Address, zip code, and telephone no.)
FEOSIM Acquisition (QF0BCA)
2100 Crystal Drive, Suite 800
Arlington, VA 20406
Contract Specialist Name: Yvette P. Goodman
Contract Specialist Phone: 703-605-3657

12. REMITTANCE ADDRESS (MANDATORY)
SYSTEMS RESEARCH AND APPLICATIONS CORPORATION
P.O. BOX 34880
ATTN ACCOUNTS RECEIVABLE
ALEXANDRIA, VA 22334-0880
USA
Phone: 703-633-2579 Fax 703-633-2592

13. SHIP TO (Consignee address, zip code and telephone no.)
USDA Farm Service Agency
Chuck Benjamin
USDA South Bldg - Rm 3099A
1400 Independence Avenue, S.W.
Washington, DC 20250
Phone: 202 720-6601
chuck.benjamin@wdc.usda.gov

14. PLACE OF INSPECTION AND ACCEPTANCE
FOB Destination

15. REQUISITION OFFICE (Name, symbol and telephone no.)
Civilian 3 - Mark W. Woods
markw.woods@gsa.gov
Phone: 703-605-3609 Fax: 703-605-9088

16. F.O.B. POINT
Destination

17. GOVERNMENT B/L NO

18. DELIVERY F.O.B. POINT ON OR BEFORE

19. PAYMENT/DISCOUNT TERMS
Net Days: 30, Discount Days: 0, Discount Percentage: 0.0

20. SCHEDULE

ITEM NO (A)	SUPPLIES OR SERVICES (B)	QUANTITY ORDERED (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
001	Labor - T&M NTE	1.0	lot	$2,418,563.00	$2,418,563.00
002	Travel - CR NTE	1.0	lot	$66,437.00	$66,437.00

21. RECEIVING OFFICE (Name, symbol and telephone no.)
See Block 13

TOTAL FROM 300-A(s)

22. SHIPPING POINT
See Block 7

23. GROSS SHIP WT

GRAND TOTAL $2,485,000.00

24. MAIL INVOICE TO (Include zip code)
General Services Administration (FUND)
The Contractor will submit invoices electronically by logging onto http://enable.its.gsa.gov. Log in using your assigned I.D. and password, then select an award and click on Create Invoice. If you have difficulties accessing the web site, please contact the TOS Help Desk at 877-472-4877. DO NOT send a paper copy of the invoice to GSA Finance

25A. FOR INQUIRIES REGARDING PAYMENT CONTACT:
GSA Finance Customer Support

25B. TELEPHONE NO
817-978-2408

26A. NAME OF CONTRACTING/ORDERING OFFICER (Type)
Victor B. Angkico

26B. TELEPHONE NO
360-779-4879

26C. SIGNATURE
Victor B. Angkico

ORDER FOR SUPPLIES AND SERVICES		IMPORTANT: See instructions in GSAR 553.370-300-1 for distribution	PAGE 2 OF 2 PAGES
1. DATE OF ORDER 08/20/2010 12:04:00 PM	2. ORDER NUMBER GSTFMGBPA100001C0001A	3. CONTRACT NUMBER GS35F4594G	4. ACT NUMBER 21480201

Period Of Performance

Start:	08/20/2010
End:	08/19/2011

ORDER FOR SUPPLIES AND SERVICES

IMPORTANT: See instructions in GSAR 553.370-300-1 for distribution

PAGE 1 OF 2 PAGES

1. DATE OF ORDER	2. ORDER NUMBER	3. CONTRACT NUMBER	4. ACT NUMBER
12/08/2010 08:50:00 PM	GSTFMGBPA10001CO02	GS35F4594G	21480502

FOR GOVERNMENT USE ONLY

5. ACCOUNTING CLASSIFICATION

FUND	ORG CODE	B/A CODE	O/C CODE
299X	A00VR290	F2	25
FUNC CODE: C01	C/E CODE: H08	PROJ./PROS. NO.	CC-A
W/ITEM	CC-B	PRT./CRFT	

6. FINANCE DIVISION

AC	SS	VENDOR NAME
		Systems Research and Applications Corporation
MDL	FI	G/L DEBT
AI	LC	DISCOUNT

7. TO: CONTRACTOR (Name, address and zip code)
Systems Research and Applications Corporation
4300 FAIR LAKES CT
FAIRFAX, VA, 22033-4232
Phone: 703-227-8248 Fax: 703-803-1509

8. TYPE OF ORDER — REFERENCE YOUR

☐ A. PURCHASE

Please furnish the following on the terms specified on both sides of the order and the attached sheets, if any, including delivery as indicated

☒ B. DELIVERY

This delivery order is subject to instructions contained on this side only of this form and is issued subject to the terms and conditions of the above numbered contract

C. MODIFICATION NO: 00 — AUTHORITY FOR ISSUING: FAR 8.05

Except as provided herein, all terms and conditions of the original order, as heretofore modified, remain unchanged.

9A. EMPLOYER'S IDENTIFICATION NUMBER: 541013306

9B. CHECK, IF APPROP: ☐ WITHHOLD 20%

10A. CLASSIFICATION: ☐ A. SMALL BUSINESS ☒ B. OTHER THAN SMALL BUSINESS ☐ C. SMALL DISADVANTAGED ☐ D. SMALL WOMEN-OWNED

10B. TYPE OF BUSINESS ORGANIZATION: ☒ A. CORPORATION ☐ B. PARTNERSHIP ☐ C. SOLE

11. ISSUING OFFICE (Address, zip code, and telephone no.)
FEDSIM Acquisition (QF0BCA)
2100 Crystal Drive, Suite 800
Arlington, VA 20486
Contract Specialist Name: Yvette P. Goodman
Contract Specialist Phone: 703-605-3657

12. REMITTANCE ADDRESS (MANDATORY)
SYSTEMS RESEARCH AND APPLICATIONS CORPORATION
P.O BOX 34880
ATTN ACCOUNTS RECEIVABLE
ALEXANDRIA, VA 22334-0880
USA
Phone. 703-633-2579 Fax. 703-633-2592

13. SHIP TO (Consignee address, zip code and telephone no.)
USDA FSA
Chuck Benjamin
South 3099A
1400 Independence Ave, S.W
Washington, DC 20250
Phone: 202-720-6601
chuck.benjamin@wdc.usda.gov

14. PLACE OF INSPECTION AND ACCEPTANCE
FOB Destination

15. REQUISITION OFFICE (Name, symbol and telephone no.)
Civilian 3 - Mark W. Woods
markw.woods@gsa.gov
Phone: 703-605-3609 Fax: 703-605-9088

16. F.O.B. POINT: Destination

17. GOVERNMENT B/L NO.

18. DELIVERY F.O.B. POINT ON OR BEFORE

19. PAYMENT/DISCOUNT TERMS: Net Days: 30, Discount Days: 0, Discount Percentage: 0.0

20. SCHEDULE

ITEM NO. (A)	SUPPLIES OR SERVICES (B)	QUANTITY ORDERED (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
0001	Labor - T&M TNE	1.0	lot	$8,750,000.00	$8,750,000.00
0002	Travel	1.0	lot	$250,000.00	$250,000.00

21. RECEIVING OFFICE (Name, symbol and telephone no.): See Block 13 — TOTAL FROM 300-A(s)

22. SHIPPING POINT: See Block 7

23. GROSS SHIP WT.

GRAND TOTAL: $9,000,000.00

24. MAIL INVOICE TO: (include zip code)
General Services Administration (FUND)
The Contractor will submit invoices electronically by logging onto http://enable.fts.gsa.gov. Log in using your assigned I.D. and password, then select an award and click on Create Invoice. If you have difficulties accessing the web site, please contact the TOS Help Desk at 877-472-4877. DO NOT send a paper copy of the invoice to GSA Finance.

25A. FOR INQUIRIES REGARDING PAYMENT CONTACT: GSA Finance Customer Support

25B. TELEPHONE NO.: 817-978-2408

26A. NAME OF CONTRACTING/ORDERING OFFICER (Type): Victor B. Angkico

26B. TELEPHONE NO.: 360-779-4879

26C. SIGNATURE: Victor B. Angkico

ORDER FOR SUPPLIES AND SERVICES		IMPORTANT: See instructions in GSAR 553.370-300-1 for distribution	PAGE 2 OF 2 PAGES
1. DATE OF ORDER 12/08/2010 08:50:00 PM	2. ORDER NUMBER GSTFMGBPA10001CO02	3. CONTRACT NUMBER GS35F4594G	4. ACT NUMBER 21480502

Period Of Performance

Start	12/08/2010
End:	10/07/2011

OMB Approved 2700-0042

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

1. CONTRACT ID CODE | PAGE 1 OF 2 PAGES

2. AMENDMENT/MODIFICATION NO.	3. EFFECTIVE DATE	4. REQUISITION/PURCHASE REQ. NO.	5. PROJECT NO. (If applicable)
PS06	See Block 16c		

6. ISSUED BY CODE	7. ADMINISTERED BY (If other than Item 6) CODE
General Services Administration FEDSIM Contracting Center/Martin 2100 Crystal Dr., Suite 800 Arlington, VA 22202	See Block 6

8. NAME AND ADDRESS OF CONTRACTOR

Torres Advanced Enterprise
Enterprise Solutions LLC
2111 Wilson Blvd Suite 200
020629502 B
Arlington, VA 22201-3052

CODE | FACILITY CODE

9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

X 10A. MODIFICATION OF CONTRACT/ORDER NO. GS00T10AJC0010

10B. DATED (SEE ITEM 13) 3/31/2010

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

__ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers is ☐ extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:(a) By completing Items 8 and 15, and returning ___ copy of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATA SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and data specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

299X.A00VR290.F2.25.C01.516 Increase: $681,835.16 New Funded Total: $2,551,981.89

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b)
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
X	D. OTHER (Specify type of modification and authority) FAR 43.103(a), FAR 52.232-22

E. IMPORTANT: Contractor ( ) is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this task order modification is described on SF30 Continuation Pages Two (2) through Three (3), which are provided as an attachment. Also provided as an attachment is a modified task order document with a vertical bar in the right hand margin annotating changes made.

15A. NAME AND TITLE OF SIGNER (Type or print)		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)	
Kathryn C. Jones CFO		Julia E. Whitmore-Sevin Contracting Officer (QF0B)	
15B. CONTRACTOR/OFFEROR	15C. DATE SIGNED	16B. UNITED STATES OF AMERICA	16C. DATE SIGNED
K C Jones (Signature of person authorized to sign)	3/31/10	BY Julia E. Whitmore-Sevin (Signature of Contracting Officer)	3/31/10

NSN 7540-01-152-8070 30-105 STANDARD FORM 30 (REV. 10-83)

OMB Approval 2700-0042

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

1. CONTRACT ID CODE		PAGE 1	OF PAGES 3
2. AMENDMENT/MODIFICATION NO. PS05	3. EFFECTIVE DATE See Block 16C	4. REQUISITION/PURCHASE REQ. NO.	5. PROJECT NO. (If applicable) 10056AGV
6. ISSUED BY CODE: General Services Administration, FEDSIM Contracting Center/McDonough, 2100 Crystal Dr, Suite 800		7. ADMINISTERED BY (If other than Item 6) CODE	

8. NAME AND ADDRESS OF CONTRACTOR

Torres Advanced Enterprise
Enterprise Solutions LLC
2111 Wilson Blvd Suite 200
020629502 B
Arlington, VA 22201-3052

CODE | FACILITY CODE

9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

X 10A. MODIFICATION OF CONTRACT/ORDER NO. GS00T10AJC0009

10B. DATED (SEE ITEM 13) 03/20/2009

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

___ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods (a) By completing Items 8 and 15, and returning ___ copy of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATA SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and data specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

9/10-909S59083BA11 O/C 2510 101EFAD56/MO-672D056 Increase: $663,701.88 New Funded Total: $2,810,515.25

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
X	D. OTHER (Specify type of modification and authority) FAR 43.103(a), FAR 52.232-22

E. IMPORTANT: Contractor ( ) is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this task order modification is described on SF30 Continuation Pages Two (2) through Three (3), which are provided as an attachment. Also provided as an attachment is a modified task order document which contains a vertical bar in the right hand margin annotating changes made.

15A. NAME AND TITLE OF SIGNER (Type or print) Kathryn C Jones CFO		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Chiara A. McDowell, Contracting Officer (TFMG)	
15B. CONTRACTOR/OFFEROR K C Jones (Signature of person authorized to sign)	15C. DATE SIGNED 3/24/10	16B. UNITED STATES OF AMERICA BY Chiara A. McDowell (Signature of Contracting Officer)	16C. DATE SIGNED 3/24/10

NSN 7540-01-152-8070
PREVIOUS EDITION UNUSABLE

30-105
Computer Generated

STANDARD FORM 30 (REV. 10-83)
Prescribed by GSA
FAR (48 CFR) 53.243

Mr. Kingston: Are these vendor contracts contingent upon available appropriations?

Response: Yes, the continuation of these vendor contracts in late FY 2011 and FY 2012 are contingent upon receiving the necessary appropriation levels in those fiscal years. These vendor contracts were originally put in place using FY 2010 appropriations.

Mr. Kingston: How much is needed in fiscal year 2012 for IT modernization/MIDAS? Why are you asking for two-year availability?

Response: MIDAS projects the need for $145.8 million in FY 2012, including $49.5 million in base funding and the $96.3 million increase requested in the budget. The FY 2009 and FY 2010 appropriations acts for USDA included a general provision allowing unobligated balances available from salaries and expenses to be used for IT expenses in the following fiscal year. Two-year availability of funding improves flexibility, project planning, and helps to ensure the funding is used wisely and keeps work on track in the event of contracting delays.

Mr. Kingston: Your testimony indicates that lapses in funding or uncertainty about the amount of available funding could result in developmental delays and cost overruns. What other factors could impact developmental delays and cost overruns?

Response: The MIDAS program has interdependencies with several other FSA and Departmental modernization projects such as Financial Management Modernization Initiative (FMMI), Geospatial Information Systems (GIS), and Enterprise Data Management (EDM). While the disruption of funding of these programs could delay development and increase costs, MIDAS will still be able to largely achieve its goals of modernizing its technology and service delivery of farm program, improving customer service, achieving compliance, and supporting USDA and FSA strategic plans. Specifically, MIDAS will still improve the efficiency and effectiveness of the business processes, data integrity, and agility to adopt future changes in requirements. MIDAS will still improve customer service in the form of speed and accuracy of processing applications and payments. The Agency's and thusly, the Department's compliance and regulatory requirements will be greatly enhanced. And, the ability of the Agency and Department to leverage its data for strategic purposes will greatly improve.

As a part of our normal risk management, we continue to manage mitigation strategies that would minimize the risk of developmental delays or cost overruns if the scope or funding of any of these other initiatives changes.

Mr. Kingston: According to your Available Funds statement on page 22-9 of the justifications, FSA carried into FY 2011 nearly $41 million for IT purposes. Why such a large amount, and what does this indicate about your IT plan for modernization? Are you on track?

Response: FSA had $40.564 million in carryover funding at the end of FY 2010. A general provision in the FY 2010 appropriations act states "unobligated balances remaining available at the end of the fiscal year from appropriations made available for salaries and expenses shall remain available through September 30, 2011, for information technology expenses". The carryover funding was available due to (1) the timeframe for resolving contract issues which impacted FSA's ability to get new contract(s) in place before the end of FY 2010 and (2) cost cutting measures implemented by FSA in FY 2010 to reduce administrative expenses. In fact, FSA determined that the best utilization of these carryover funds in FY 2011 was to address needs and/or scheduling issues to ensure that FSA IT initiatives remain on track in meeting IT mission priority needs (e.g. modernization, infrastructure, operations, etc.) that support FSA program delivery.

Mr. Kingston: What exactly will $26 million for CCE refresh be used for?

Response: The $26 million for the CCE refresh will replace aging, obsolete existing infrastructure with more efficient current technology (e.g. computers, software, servers and related support activities). Upgraded IT infrastructure is essential to support the functionalities of modernization. The $26 million that is included in the FSA request is part of a total request of $60 million for the CCE refresh. The remaining amounts are requested in the budgets for Rural Development and the Natural Resources Conservation Service.

AERIAL PHOTOGRAPHY

Mr. Kingston: The FSA spends $10.1 million on Flying Contracts. Are these contracts all for aerial photography?

Response: The $10.1 million is spent annually on the National Agriculture Imagery Program (NAIP), which provides digital imagery for FSA's GIS enabled operations. With current funding levels plus partnership contributions, we cover approximately one-third of the lower 48 states per calendar year.

Mr. Kingston: When using map application on the web, one can often find that that description on the bottom of the map indicates that the data for the map is coming from the Farm Service Agency. Do these for-profit companies pay the FSA for the use of your maps?

Response: Google uses our imagery and does not provide monetary reimbursement. The current agreement requires them to place USDA-FSA's logo on the images in return for the use of these images.

Mr. Kingston: Do you think these companies that use this data, for profit, should pay?

Response: Currently, FSA is able only to charge for reproduction costs for the data. These costs are minimal in comparison with the cost of acquisition. If "for profit" companies paid a proportionate cost for the imagery that reflects acquisition and program management costs and the funds were reimbursed to FSA for NAIP, that would be a positive addition to the program and would offset the amount of Federal funding needed to operate NAIP. However, it is our understanding that this type of change would require legislation.

IMPLEMENTATION OF ACRE AND SURE

Mr. Kingston: The testimony indicates that FSA has implemented new, complex programs such as Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance Payments (SURE) with very few additional resources. Tell the Committee what resources were used to implement these programs. What was spent, and how much do you expect to spend in the fiscal year 2011 and in 2012?

Response: The 2008 Farm Bill provided $50 million for implementation costs; however, actual costs have far outstripped what was provided in the bill. For example, the initial implementation cost of the Average Crop Revenue Election (ACRE) program was $32.6 million. The initial implementation cost for the Supplemental Revenue Assistance Payments (SURE) was $57 million.

Both programs required new software development for full implementation. In the initial stage of the program, existing software was modified to meet requirements for a portion of the ACRE signup. Two automated tools were developed prior to SURE signup to replace manual calculations for eligibility determinations and for compilation of RMA and FSA records. This allowed for work to progress while other software was being developed.

As noted, both programs are complex; however, implementation costs as a percent of 2009 producer benefits appear to be reasonable at about seven percent for ACRE and three percent for SURE. Future program costs are anticipated to decrease somewhat as full automation is now available, though administrative operations will be required for annual signup. The administrative expenses related to delivering these programs are estimated to be $33.7 million in FY 2011 and $32 million in FY 2012 for SURE and $23 million annually for ACRE.

Mr. Kingston: How was the FSA able to implement these complex, brand new programs without much in the way of additional resources?

Response: FSA implemented the Average Crop Revenue Election (ACRE) program starting with the 2009 crop year and completed the signup for the 2008 Supplemental Revenue Assistance Payments (SURE) program in FY 2010 with limited additional resources.

Both of these programs have added levels of complexity to payment programs. FSA implemented the ACRE program by modifying the Direct and Counter-Cyclical Program (DCP) contract and payment system. With SURE, FSA developed a series of Excel worksheets for use by the county office staffs to manually input guarantee and revenue information and calculate producers' eligibility and benefit amounts. While the worksheets have allowed FSA to get the valuable SURE disaster assistance to producers on a timely basis the system lacks automated validation checks needed to minimize payment errors and is highly labor intensive. To assist in this effort, National, State and webinar trainings were conducted to provide updated program information to county offices. Throughout the training period, regular conference calls were held with State Office Program Specialists to provide support. In addition, in early FY 2009, a portion of the farm bill funding provided through CCC was set aside to provide an additional 200 temporary employees to assist the county offices with heavy workload.

PIGFORD II/CLAIMS SETTLEMENT

Mr. Kingston: At the same time, the budget request includes $40 million to provide settlements for claims. Moreover, the last Congress, in the lame duck session, passed the Claims Resolution Act that provided an additional $1.15 billion for Pigford II settlements. How did the FSA arrive at a figure of $40 million?

Response: On June 10, 2009, the Secretary created the USDA Program Complaints Task Force to review over 14,000 program discrimination complaints which were filed from fiscal years 2000 through 2008. The Task Force determined that the complaints were not processed timely, investigated or resolved. These complaints were submitted under the Equal Credit Opportunity Act (ECOA) and are outside the scope of Pigford II settlements. The Task Force identified 3,800 ECOA complaints which could have merit and could be considered for settlement. The Task Force estimates that the statute of limitations has expired on more than 80 percent of the 3,800 ECOA complaints. It is estimated that of the 3,800 ECOA complaints about 600 may ultimately be determined eligible for settlement. The USDA Program Complaints Task Force estimates it will require $40 million to settle the estimated 600 eligible claims, including compensatory damages, attorney's fees and costs.

Mr. Kingston: Is this funding in addition to the $1.15 billion that was provided in the Claims Resolution Act?

Response: The $40 million is mutually exclusive and independent of the $1.15 billion provided in the Claims Resolution Act. The $40 million will be used to settle USDA program discrimination complaints filed by Black, Native American, Hispanic, Asian and Women farmers between July 1, 1997 and October 31, 2009. The $1.15 billion provided in the Claims Resolution Act will be used to settle late filed claims from Black farmers in the Pigford I class action who were discriminated against between 1981 and 1996.

Mr. Kingston: How much of the $1.15 billion came from the Special Supplemental Feeding Program for Women, Infants and Children (WIC)?

Response: The Claims Resolution Act of 2010 (Pub. L. 111-291) rescinded $562 million in WIC unobligated balances.

Mr. Kingston: Why does USDA need this additional authority?

Response: USDA needs the additional authority because the time period for providing relief under ECOA has expired, due to no fault of the complainants. The authority is important because USDA cannot provide monetary relief on complaints older than two years old. In order to resolve these cases, the statute of limitations must be statutorily extended.

Mr. Kingston: Why wasn't this addressed in the law that passed the lame duck session of the last Congress?

Response: The Pigford II settlement process relates to Black farmers who were discriminated against between 1981 and 1996, who previously submitted a request to file a late claim in the 1999 Pigford I Consent Decree and did not receive a determination on the merits of their claim. The proposal in the FY 2012 President's Budget relates to program discrimination claims from Black, Native American, Hispanic, Asian and Women farmers whose written claims filed under the Equal Credit Opportunity Act between July 1, 1997 and October 31, 2009 were not processed, resolved or investigated in a timely manner.

Mr. Kingston: What is the status of the proposed legislation?

Response: The legislative proposal is presently being reviewed within the Administration and we hope to submit it to Congress soon. Legislation to extend the SOL passed the House twice in 2010 but did not pass the Senate.

Mr. Kingston: According to the budget justifications, USDA anticipates that no more than 600 claims will need to be settled under this action. With a request of $40 million, that averages out to a per claim settlement of $66,666. Why does this set of claimants get an average of $66,666 and the claimants under Pigford average $50,000?

Response: The Pigford settlement process differs significantly from the statute of limitations (SOL) process. The SOL process has a defined number of complaints eligible for settlement because only those complaints previously filed with the Office of Civil Rights are eligible. In addition, SOL settlements will be all inclusive, thereby differing from Pigford which included additional funding for tax relief. The $50,000 average payout for Pigford claimants only applies to Track A claims. Track A farmers that receive $50,000 will also receive $12,500 to offset potential tax liability associated with the $50,000 monetary award. Thus, the total amount for Track A Pigford claimants averages about $62,500. Farmers that file claims under Track B are eligible for actual damages up to $250,000 per claimant. The proposed settlement process for SOL claims will not include tax payments. Additionally, SOL claims will be divided into three levels for settlement purposes. Only those claims that satisfy the requirements of Level I or Level II will be eligible for compensatory damages.

Mr. Kingston: Why is the cost to administer this settlement $20 million, or 50 percent of the claims request?

Response: The $20 million requested as part of the FY 2012 budget for civil rights claims administration is not the administrative costs for implementing the $40 million requested for the Equal Credit Opportunity Act (ECOA) Statue of Limitations (SOL) claims. The $20 million will be used for administrative costs related to the process outlined by the Department of Justice and agreed to by USDA to provide a unified claims process to Hispanic and Women Farmers' who have alleged discrimination in the delivery of farm loan programs between 1981 and 2000. These two separate requests address different distinct groups of individuals with claims of discrimination against USDA.

FETRA ASSESSMENT

Mr. Kingston: The Children's Health Insurance Program Reauthorization Act of 2009, effective April 1, 2009, significantly changed the tax rates for all classes of tobacco covered by the Fair and Equitable Tobacco Reform Act of 2004; however, the tax rates used by the Commodity Credit Corporation in allocating liability for the FETRA assessments have not been revised to reflect those changes. The FETRA assessment allocations are based on changes in the shares of Gross Domestic Volume, and both Congress and CCC have made it clear that such share changes can only be calculated by multiplying commercial removals by the excise tax rates that apply to such removals. Clearly, tobacco products, since April 1, 2009 have been subject to higher tax rates, but USDA's assessment calculation doesn't account for these rate changes. Why hasn't the FSA recognized these changes when the law, the implementing regulations and even the Secretary recognize that changes in shares of gross domestic volume require consideration of both removal volumes and tax rates?

Response: The Fair and Equitable Tobacco Reform Act (FETRA) of 2004 established the Tobacco Transition Payment Program (TTPP) along with a process for determining quarterly assessments to fund TTPP payments to former tobacco quota holders and tobacco producers. In accordance with FETRA, these assessments are allocated among six classes of tobacco products: cigarettes, cigars, snuff, roll-your-own, chewing, and pipe.
Congress provided the initial allocation among the six classes of tobacco products using the volume of tobacco products removed into commerce. Following the same procedures used by Congress, the CCC has adjusted these allocations annually to reflect changes in each class' gross domestic volume. USDA has consistently determined the adjustments based on actual changes in volume and to assure that the adjustments only reflect changes in volume, USDA has used constant tax rates. The law does not allow us to do any other method of adjustment. FETRA states plainly that future changes in product class allocations should be determined based solely upon changes in gross domestic volume; FETRA explicitly defines the term "gross domestic volume" as the volume of tobacco products removed and not exempt from Federal excise tax. FETRA makes no mention of Federal excise tax rates. If CCC were to adjust the class allocations to include changes in tax rates, such as those associated with the passage of the Children's Health Insurance Program Reauthorization Act of 2009, it would not be acting in accordance with the requirements of FETRA, that is, adjusting class allocation based solely on changes in gross

domestic volume.

Mr. Kingston: These tax rates have changed, but the Department hasn't changed their table of rates, and this appears to be an inconsistent application of the law on the part of USDA. Could you explain why USDA has not changed the table of rates to reflect current rates?

Response: Congress provided the initial allocation among the six classes of tobacco products using the volume of tobacco products removed into commerce. Following the same procedures used by Congress, the CCC has adjusted these allocations annually to reflect changes in each class' gross domestic volume. USDA has consistently determined the adjustments based on actual changes in volume and to assure that the adjustments only reflect changes in volume USDA has used constant tax rates. The law does not allow us to do any other method of adjustment. FETRA states plainly that future changes in product class allocations should be determined based solely upon changes in gross domestic volume; FETRA explicitly defines the term "gross domestic volume" as the volume of tobacco products removed and not exempt from Federal excise tax. FETRA makes no mention of Federal excise tax rates. If CCC were to adjust the class allocations to include changes in tax rates, such as those associated with the passage of the Children's Health Insurance Program Reauthorization Act of 2009, it would not be acting in accordance with the requirements of FETRA, that is, adjusting class allocation based solely on changes in gross domestic volume.

Mr. Kingston: Hasn't the Secretary already acknowledged that the USDA should periodically adjust the assessments allocated to each tobacco product class to reflect changes in the share of gross domestic volume held by that class, which necessarily requires the use of the tax rates that apply to that class today?

Response: As stated above, to assure that the adjustment is for volume only, as is mandated by FETRA, it is necessary that constant tax rates be used. The assessments are allocated among six statutorily-identified classes of tobacco products: cigarettes, cigars, snuff, roll-your-own, chewing, and pipe. Congress specified in the program statute the relative percentages that each class would pay of the total assessment each year and it was determined on examination by the agency that that allocation had been made by Congress using tax data and volumes published by the Tobacco Tax and Trade Bureau (TTB). Specifically, it was determined Congress used calendar year 2003 relevant class volume amounts (volume measured using number of sticks for cigarettes and cigars, pounds for the other classes) from the published data and multiplied those numbers by the maximum excise tax rate. In this fashion, each class' volume was converted from differing bases (sticks and pounds) to a tax dollar figure. The tax figures were added together for a six-class total. Each class' allocation was then its percentage contribution to the six-class total excise taxes and that percentage was then included specifically in FETRA as each category's starting percentage of the overall allocation for the 10 year program. Those levels were not permanent but rather it was provided in FETRA that "for subsequent fiscal years, the Secretary shall periodically adjust the percentage of the total amount required under subsection (b) to be assessed against, and paid by, the manufacturers and importers of each class of tobacco product, to reflect changes in the share of gross domestic volume held by that class of tobacco product." Thus changes were allowed in FETRA but only for changes in the share of gross domestic volume, not for changes in tax rates.

FOREIGN AGRICULTURAL SERVICE

U.S AGRICULTURE EXPORT STRATEGY

Mr. Kingston: On various occasions, the Secretary has publicly stated that the U.S. agriculture community must out compete the rest of the world in order to continue to drive up exports. If the USDA is serious about a real competition, we must have a well thought out strategy that involves *not only* the Foreign Agricultural Service, but all components of USDA working together - whether it is FSIS support for a poultry issue, GIPSA with a grain export issue, etc. In going through all of your materials, it is difficult to understand USDA's plan for maximizing existing resources to increase not just export dollars but - the number of exports and the expansion of foreign markets for U.S. goods. Please explain how FAS is taking the lead in the U.S. agriculture export strategy?

Response: Each year, the Foreign Agricultural Service (FAS) develops individualized country strategies for our export markets. In doing so, FAS engages our partner USDA agencies (such as, but not limited to, the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, the Grain Inspection, Packers, and Stockyards Administration, and the Agricultural Marketing Service), other U.S. Government agencies such as the U.S. Trade Representative and Departments of State and Commerce, and our private sector contacts. These country strategies set long term goals and outline short term objectives that can be achieved in a 12-18 month period. These long term goals are aligned with FAS' and the Department's strategic plans.

FAS, in direct consultation with its partner agencies in the Department, including those listed above, has also designed a global market strategy that provides a roadmap for expanding U.S. agricultural exports and improving global food security. FAS also has a formal process for obtaining input from all the other USDA agencies, called the Intra-Departmental Coordination Committee for International Affairs. This committee meets quarterly and is a forum for exchange of ideas and initiatives.

Mr. Kingston: In particular, what is the Agency doing differently or what does it plan to do differently this year, next year and into the future to facilitate agricultural exports?

Response: Given that agriculture exports are at a record high, in both dollar value and volume, FAS's immediate goal is to ensure that our exporters have all the tools, information, and support they need to continue this unprecedented growth. FAS is a global agency, working literally around the clock and around the world to identify new opportunities and protect existing markets for our farmers, growers, and ranchers. We look for new markets, such as inland cities in China where we only recently established a presence; and new opportunities for commodities, such as exporting upland cotton in Egypt or sorghum in Spain. We maintain our market presence in more restricted markets, such as our $10 billion worth of agricultural exports to the European Union. Finally, when unreasonable standards or requirements are leveled against us, we send our experts from the vast resources of the Department to hold technical-level discussions.

COUNTRY STRATEGY SUPPORT FUND

Mr. Kingston: Please provide a detailed description of FAS' Country Strategy Support Fund, examples of activities supported, and its funding level for Fiscal Years 2008 through FY 2011.

Response: The Country Strategy Support Fund (CSSF) provides funding support activities conducted by FAS' overseas offices in achieving the goals outlined in an office's Country Strategy Statement. Last year, CSSF funds were used by FAS' overseas offices in 65 countries. CSSF is used for activities that support trade policy and market access goals, work to remove non-science-based sanitary/phytosanitary (SPS) or technical barriers to trade (TBT), increase market intelligence, facilitate trade, promote trade capacity building, support strategic communication, and build food security and sustainable agriculture programs.

In FY 2010, using CSSF funds, FAS Posts abroad conducted hundreds of activities to help the U.S. agricultural export community. FAS Posts sponsored:

- 152 local and regional trade shows;
- 50 reverse trade missions organized, with 500 buyers visiting U.S. and third world country shows helping hundreds of U.S. companies, most small and medium sized enterprises;
- 16 biotechnology related training or seminars;
- 10 seminars on market access rule making issues; and
- Capacity building efforts such as cold chain seminars similar to those held in China.

In response, Mexico's import inspection personnel from the Health, Safety and Food Quality National Service (SENASICA) lack knowledge of Food Safety Inspection Service (FSIS) policies for the export of meat and meat products to Mexico. FAS/Mexico invested $13,800 in FY 2010 to work with USDA's FSIS to host Mexican Government officials for a seminar on U.S. meat and poultry regulations. The Post reports that the seminar has helped reduced trade disputes, guaranteeing access to the Mexico market which is worth $2.3 billion in annual exports of meat and poultry.

CSSF funds help modify building regulations in Taiwan, to promote U.S. wood exports. In FY 2010, FAS Taiwan led a wood mission team to the United States. The team was made up of government officials, building codes researchers, and the leading Taiwan wood importer. The purpose of this mission was to introduce the United States' wood and forestry products' regulatory systems to Taiwan authorities and associated agencies. Before the mission, Taiwan's Bureau of Standards, Methodology, and Inspections only accepted Taiwanese evaluation reports for preservatives used on treated wood and wood-based products. Now they accept the International Code Council's ratings as well. In addition, the Government of Taiwan is modifying some of the building codes in Taiwan to allow more wood framing. Supporting this mission with $10,000 in CSSF funds, FAS Taiwan was able to help maintain U.S. market access and help increase softwood lumber exports worth $27.8 million, a new record level for U.S. softwood exports in 2010.

From October 26 to 27, 2010, FAS Costa Rica led a delegation of 14 buyers to the America's Food and Beverage Show in Miami. As a result of the mission, one of the buyers is now importing 2 container loads of French fries per month. Total processed potato exports to Costa Rica for 2010 climbed to $4.1 million.

FAS Taiwan invested $3,700 to organize and accompany ten buyers to the Produce Marketing Association show in Orlando. After the show the group continued on to visit the industry in the Pacific Northwest. The trip resulted in $2 million in immediate sales for U.S. fruit exporters.

[The information follows:]

CSSF Funding Levels for Fiscal Years 2008 to 2011

- FY 2008 at $1.2 million;
- FY 2009 at $600,000;
- FY 2010 at $2 million; and
- FY 2011 CR level is currently set at $320,000.

UNFAIR AGRICULTURAL TRADE PRACTICES

Mr. Kingston: How does FAS formally monitor and track unfair agricultural trade practices in foreign countries?

Response: FAS proactively monitors agricultural trade practices in foreign countries through our overseas staff, our extensive private sector contacts, and our highly-trained Washington-based staff. One of the tools we use is the Global Agriculture Information Network, which is a series of reports from our overseas offices that provides timely information on the agricultural economy, products, and issues that are likely to have an impact on U.S. agricultural trade.

In a formal process that allows for private sector input, FAS monitors and coordinates U.S. government responses to new and proposed foreign technical barriers to trade on a daily basis. We engage with over 350 U.S. regulatory agency officials and industry contacts to determine what potential impact, if any, a new or proposed foreign measure would likely have on U.S. trade, and the measures' consistency with the World Trade Organization (WTO) sanitary/phytosanitary (SPS) or technical barriers to trade (TBT) Agreement obligations. In FY 2010, FAS coordinated the interagency review of a record 1,035 foreign SPS measures alone, and provided comments to foreign governments on 230 of them. FAS undertakes a similar process to monitor foreign country obligations with their WTO commitments under the WTO Agreement on Agriculture. FAS also contributes substantially to the U.S. Trade Representative's (USTR) various public reports on trade agreement compliance. Follow-on actions to address identified issues are coordinated within the interagency process.

AGRICULTURAL TRADE BARRIERS

Mr. Kingston: What steps does FAS take to reduce agricultural trade barriers?

Response: In conjunction with USDA regulatory agencies, USTR, and other U.S. Government agencies, FAS employs a variety of tools to help reduce trade barriers and/or enforce our trade agreements. In addition to the negotiation of formal trade agreements, we help establish science-based international standards through participation in international standard setting bodies, support early technical interventions and capacity building to avoid potential trade problems, engage in diplomatic or political level dialogue, and use formal dispute settlement provisions of existing agreements.

RE-ESTABLISHMENT OF AGRICULTURAL POLICY ADVISORY COMMITTEE (APAC)

Mr. Kingston: Secretary Vilsack announced the re-establishment of the 35 member Agricultural Policy Advisory Committee (APAC) and the six Agricultural Technical Advisory Committees (ATACs) last March. These Committees were authorized by Congress so that private sector representatives could advise the

Secretary and the U.S. Trade Representative on overall agricultural trade policy objectives and positions prior to entering trade agreements, the operation of trade agreements and other trade matters.

Your budget request seeks an increase of $20 million for the National Export Initiative - this Administration's comprehensive policy on trade. From what I can tell, the Agricultural Policy Advisory Committee has only met three times since this Administration took office including once last month. If this is true, how am I supposed to believe that USDA has developed a National Export Strategy for agriculture without first working extensively with those marketing and selling the actual goods and services?

Response: The Agricultural Policy Advisory Committee (APAC) has met formally four times since January, 2009. APAC remains active through participation in joint conference calls hosted by USDA and USTR. Since January 2011, three joint calls have been held to discuss the Korea Trade Agreement and the Doha Development negotiations. USTR also hosts a monthly call for Chairs of trade advisory committees. APAC members provide frequent advice through participation via the secured Advisory Committee website, where members view sensitive trade negotiation documents and provide comments back to USDA and USTR for consideration. In addition to the formal trade advisory committees, FAS consults on an on-going basis with the Cooperator organizations, who focus on marketing strategies, opportunities and programs.

AGRICULTURAL EXPORTS

Mr. Kingston: Can you explain why USDA has not done more to work with the export community as a whole to increase exports?

Response: FAS is proud of the contribution we make to growing U.S. agricultural exports. This is accomplished through its wide reach across virtually all of the organized, trade-supporting groups in the United States. Sixty-nine non-profit trade associations work as partners with FAS and its market development programs to promote trade. These groups cover virtually all the farm product sectors that can be identified, from larger groups representing wheat growers, to more specialty groups like pear growers in the Northwest. As well, to specifically target Small- and Medium-Sized Enterprises (SMEs), FAS conducts its work nationwide through four State Regional Trade Groups (SRTGs) to help companies share the costs of their overseas promotion under the Market Access Program. In 2010, SRTGs helped more than 650 U.S. companies. SRTGS have established links to each U.S. state's Department of Agriculture. In fact, the State Secretaries of Agriculture sit on their board of directors, working with FAS to conduct outreach, support, and activities in their states. U.S. farm exports are expected to reach a record $135.5 billion in FY 2011, eclipsing the previous record set in 2008 by more than $20 billion. Compared to FY 2010, export value is expected to grow by 25 percent and volume by 10 percent.

These numbers are good news, not just for farmers and ranchers and the businesses and communities that support them, but for our nation's economy as a whole. Every $1 billion in agricultural exports generates an additional $1.31 billion in economic activity and supports 8,400 American jobs.

FOOD AID AND LONG-TERM APPROACH TO LOCAL SUSTAINABILITY

Mr. Kingston: A number of my colleagues have heard me reference a book named "Dead Aid" by Dambisa Moyo. I do not know if you are familiar with the arguments made in the book, but the general message is that U.S. and other Western Aid over the years has done more long-term harm than good - that "aid in Africa has not worked precisely because it has not been constructed with the idea of promoting growth." Her thoughts follow the old adage --- "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime."

As your testimony points out, FAS is involved in three primary programs that support food aid or food security - (1) about $200 million for McGovern-Dole Food for Education, (2) $1.7 billion for Food for Peace Title II grants, and (3) $156 million in CCC funds for Food for Progress. The only change you are requesting is for a $9 million reduction in the McGovern-Dole program.

Please explain to me what USDA's long-term plans are for international food assistance. In particular, can you tell me if the Department or its sister agencies have developed a plan to shift funding from the pure aid side to more of what needs to be done to reduce dependency and increase agricultural sustainability in these countries - that is, local entrepreneurship, local or regional growers and shippers, etc.

Response: USDA is responsible for implementing both the McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) and Food for Progress programs. USAID is responsible for administering P.L. 480 Title II program. In managing both Food for Progress and McGovern-Dole, USDA endeavors to graduate countries from food assistance and to help transition them to less dependent futures. In addition to providing directly distributed commodities, the McGovern-Dole program builds the capacity of recipient country governments and civil society - with the ultimate goal of transitioning the management of school feeding programs to governments and local communities. The Food for Progress (FFP) program typically monetizes donated commodities and uses the proceeds to support development projects that expand free enterprise in the agricultural sector - thus helping beneficiaries to sustainably provide their own livelihoods. Moyo mentions the development of agricultural value chains and the provision of micro- and small- and medium-sized finance, as important types of development projects. FFP directly supports entrepreneurship by working on projects across the value chain to enhance agricultural productivity and expand markets and trade.

President Obama's Feed the Future Initiative is the U.S. Government's strategy that supports international efforts to increase availability and accessibility of food, improve nutrition, and food safety. At USDA, we plan to align and leverage our programs with country-owned plans that support results-based programs so that assistance is tailored to the needs of individual countries through consultative processes and plans developed and led by country governments. We will strengthen partnerships with other U.S. Government agencies, the private sector, and other stakeholders to promote and encourage economic security and free trade. Economic development in foreign countries means less dependence on food aid and more stable markets for American agricultural exports.

Mr. Kingston: Since the USDA formalized school nutrition initiatives under the McGovern-Dole Food for Education in 2003, the stated goal has been to promote education, child development and food security in a sustainable manner. However, Food for Education programs now put a 30 percent ceiling on administrative and corollary support services. This budgetary restriction does not prevent programs from incorporating small-scale support services such as community gardens and banana plantations into their programs. However, it is insufficient for supporting local processors, which can have a much greater impact on realizing food security sustainably. Working with processors not only feeds children, but it enables new products to get to market, it build local processors' ability to respond to local needs in times of crisis, and it incentivizes local governments to continue programs independently after USDA funding ceases.

Can you please explain how Food for Education programs will be able to achieve sustainable outcomes, without local capacity building support for local food systems?

Response: USDA does not have a set limit on the amount of administrative and corollary support services. USDA considers local capacity building to be the cornerstone of its sustainability efforts and incorporates these types of activities into all projects. We encourage implementing organizations to build local capacity and fund activities that promote the use of local products in school feeding, train parents and teachers, organize parent-teacher associations, and expand the capacity of government offices to eventually take over these programs. USDA believes that collaborations with in-country groups strengthen McGovern-Dole projects and increase the likelihood of sustainability.

Mr. Kingston: Mr. Brewer's testimony mentions the $23.8 million spent on the Local and Regional Procurement Pilot Project authorized in the last Farm Bill. The intent of these pilots is to use local and regional purchases to address food insecurity. I support USDA's Local and Regional pilots in non-emergency situations. Compared to shipping US commodities abroad, these pilot programs are more cost-effective and timely, they help build the capacity of local farmers and food industries, and they ultimately have a very strong development orientation. Can you please tell me what your plan is for scaling up these enormously effective approaches to food aid beyond the current short-term efforts?

Response: USDA agrees that the Local and Regional Procurement Pilot Project is a useful assistance tool, along with our in-kind food aid programs. Local and regional procurement helps to respond to emergencies, promote market linkages, and create economic opportunities. Private Voluntary Organizations and the World Food Program have been especially enthusiastic in their support of local and regional procurement for development assistance. Of the 40 proposals that USDA received under the pilot project, nearly half requested funding for development assistance.

USDA has maximized the use of this pilot by funding 22 programs during FYs 2009-2011. In FY 2012, USDA will arrange for a third-party evaluator to prepare a final report. These results will help to guide USDA and others in the future use of local and regional procurement. USDA's authority to implement the Local and Regional Procurement Pilot Project will end in FY 2012. The U.S. Agency for International Development (USAID) is currently implementing a $300 million local and regional procurement program to address emergency needs, and we expect support for that initiative would continue.

TRADE AGREEMENTS WITH KOREA, PANAMA, AND COLOMBIA

Mr. Kingston: Last week, I was part of a bipartisan delegation traveling to Central and South America. Two of the countries visited were Panama and Colombia - two countries that we are on the verge of signing free trade agreements with. Can you explain USDA's involvement with these two agreements as well as the pending agreement with Korea? What does U.S. agriculture expect to gain from all three?

Response: USDA has had a significant role in the negotiations of all three pending trade agreements in working to achieve increased market access and maintain U.S. competitiveness for U.S. agricultural products in each of the three countries - Colombia, Panama, and Korea.

Once implemented, the U.S.-Colombia Trade Promotion Agreement (TPA) will provide American agriculture with improved access to Colombia's $283.1 billion economy and 44 million consumers. Under the Colombia TPA, U.S. exporters will receive immediate duty-free treatment on products accounting for almost 70 percent of current trade.

The U.S.-Panama TPA, once implemented, will provide American agriculture with improved access to Panama's $27.2 billion economy and 3.4 million consumers. Under the Panama TPA, U.S. exporters will receive immediate duty-free treatment on products accounting for 50 percent of current trade.

Moreover, the U.S.-Korea Trade Agreement, once implemented, will provide American agriculture with improved access to Korea's $1 trillion economy and 49 million consumers. Under the agreement, nearly all tariffs for U.S. agricultural products will be eliminated. About $3 billion, or 60 percent, of Korea's agricultural imports from the United States will be immediately duty free.

Mr. Kingston: Many of my colleagues believe that enough time has passed and that the agreements are in good enough shape so that the Administration should send up to Congress a consolidated package with all three free trade agreements. As the Secretary has stated, the Korea agreement alone will eventually boost U.S. agricultural exports by $1.9 billion annually, so can you tell me what is causing the delay?

Response: The Administration is working hard to finalize all three agreements. The Korean agreement is ready to go. There was an announcement this week of an action plan agreed to by Colombia, and significant progress is being made with respect to steps being taken by Panama.

CLIMATE CHANGE

Mr. Kingston: Your FY 2012 Explanatory Notes state that the Foreign Agricultural Service is involved in a number of climate change projects, including USDA's lead in "the United Nations Framework Convention on Climate Change". In addition, you state that USDA launched the Global Research Alliance on Agricultural Greenhouse Gases.

At a time when FAS appears to be stretched between promoting U.S. agricultural products in 156 countries and also trying to address international food assistance in numerous countries, explain to me why FAS would then try to devote critical resources towards climate change issues?

Response: The current negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) are an important activity for the U.S. Government and for the agricultural and forestry sectors. USDA's strategic plan calls for the department to lead the effort to develop mitigation and adaptation strategies for the U.S. agriculture sector. As USDA's lead agency for international activities, FAS' role is to advocate for U.S. agricultural climate change interests by engaging in discussion with foreign country officials and stakeholders, including participation in the United Nations negotiations. The UNFCCC is working to develop a successor regime to the Kyoto Protocol which was the first multilateral agreement aimed at curbing greenhouse gas emissions linked to global climate change. The approach the United States is pursuing for this new regime will ensure that all major emitters contribute to emissions reductions, not just the developed countries. It will also, for the first time, take into account forestry and agriculture which contribute to emissions and have a capacity to absorb greenhouse gases, especially in the United States and in many developing countries. FAS seeks to ensure that any international climate change agreement does not adversely impact U.S. agricultural trade or competitiveness and that the framework ultimately adopted reinforces U.S. efforts to develop methods for reducing emissions and adapting to climate change while still meeting the world's need for increased food production.

The Global Research Alliance on Agricultural Greenhouse Gases (GRA), which is independent of the UNFCCC negotiations, seeks to foster international collaboration on research towards these goals as well as to build capacity in developing countries to develop emission reduction strategies specific to their own national circumstances. FAS' role in the GRA is to guide the development of its Charter, in close coordination with the State Department, in order to ensure that the charter meets the organizational needs of the alliance without creating a binding legal treaty for the United States. The Agricultural Research Service is the lead technical agency in the GRA, while FAS has a policy role in the Alliance. Actual research activities under the GRA will be conducted by USDA science agencies. FAS also facilitates technical assistance to developing countries through participation in efforts to help them develop low emissions development strategies for the agriculture sector and through the operation of scientific exchange programs.

MARKET ACCESS PROGRAM AND THE FOREIGN MARKET DEVELOPMENT PROGRAM

Mr. Kingston: FAS manages the $200 million program called Market Access Program designed to promote and market U.S. goods to foreign countries or regions for small and medium sized companies. Just two weeks ago, Congressman Issa held a hearing in the House Oversight and Government Reform Committee. The MAP program came up at this hearing and the claim was that this Program is a form of corporate welfare.

Can you inform the Subcommittee what controls you have in place to make sure that this program is serving those companies that really need it? What process do you have in place to verify plans for each cooperator?

Response: Under the Market Access Program (MAP), the Commodity Credit Corporation (CCC) enters into agreements with nonprofit trade organizations to share the costs of certain overseas marketing and promotion activities that are intended to develop, maintain, or expand commercial export markets for U.S. agricultural commodities and products.

Nonprofit associations, nonprofit State Regional Trade Groups (SRTGs), U.S. agricultural cooperatives, and State agencies are eligible to participate in the MAP. MAP participants may implement generic and branded programs. Branded program participation is limited to small sized entity, for-profit firms. MAP funding is not provided directly or indirectly to large companies. GAO in their 1999 report to Congress stated that: "As required by statute, FAS prohibited direct assistance for brand-name promotions to large companies beginning in fiscal year 1996." … "Also, beginning in fiscal year 1998, FAS prohibited indirect assistance to large companies (excluding cooperatives)." FY 1997 was the last year that large for-profit companies could apply for branded programming through trade associations, SRTGs, or state agencies.

MAP participants with branded programs solicit small company applications and carefully review and verify company legitimacy and past performance. These small companies are reimbursed 50 percent of authorized expenditures and are limited to 5 years of activity in any one market. MAP participants and the companies certify that MAP funds supplement and do not supplant their funding. All MAP participants undergo audits conducted by the Compliance, Security and Emergency Planning Division of the Foreign Agricultural Service to verify that the organizations are in compliance with the regulations governing the use of program funds.

Mr. Kingston: Please inform the Committee of the funds obligated under the Foreign Market Development Program from fiscal years 2007 to estimated 2011 and estimated 2012. Provide a description of recent success with this program, including any specific metrics.

Response: The table below identifies Foreign Market Development (FMD) Program obligations made between FY 2007 and FY 2010, as well as FY 2011 to date. For FY 2012, the program allocations will be based on a competitive application process and cannot be provided in advance of that process. The information is submitted for the record.

[The information follows:]

Foreign Market Development Program Obligations (US$)					
Participant	2007	2008	2009	2010	2011
American Hardwood, Plywood, Softwood, and SFPA	$3,262,482	$2,764,177	$3,336,252	$3,530,482	$2,796,545
American Peanut Council	$695,048	$740,695	$634,050	$737,985	$628,631
American Seed Trade Association	$205,286	$47,375	$228,499	$228,073	$219,486
American Sheep Industry Association	$144,179	$186,792	$158,091	$183,479	$161,354
American Soybean Association	$7,380,344	$6,924,682	$6,653,799	$7,273,160	$6,648,054
Cotton Council International	$4,240,737	$4,491,078	$4,187,329	$5,052,334	$4,532,356
Leather Industries of America	$164,155	$163,768	$140,165	$162,157	$135,224
Mohair Council of America	$20,681	$14,223	--	$15,768	$8,808
National Hay Association	$38,894	$62,179	$56,625	$78,325	$80,110
National Renderers Association	$949,676	$984,234	$860,410	$945,818	$837,791
National Sunflower Association	$271,433	$284,360	$263,372	$259,748	$252,192
North American Millers Association	$37,338	$58,679	$57,511	$60,797	$23,833
U.S. Dairy Export Council	$791,033	$695,441	$640,575	$752,301	$595,464
U.S. Dry Bean Council	$148,256	$114,886	$131,461	$138,264	$103,611

Foreign Market Development Program Obligations (US$)					
Participant	2007	2008	2009	2010	2011
U.S. Grains Council	$4,686,511	$5,528,241	$4,730,977	$4,342,466	$4,386,866
U.S. Hide, Skin and Leather Association	$113,600	$93,460	$144,545	$155,983	$98,092
U.S. Livestock Genetics Export, Inc.	$651,185	$704,699	$663,100	$763,923	$670,213
U.S. Meat Export Federation	$1,686,700	$1,861,763	$1,780,090	$1,846,115	$1,612,357
U.S. Wheat Associates	$5,683,902	$5,392,923	$6,658,416	$4,178,916	$5,033,535
USA Dry Pea and Lentil Council	$157,648	$205,838	$176,735	$185,694	$157,319
USA Poultry and Egg Export Council	$1,504,276	$1,699,756	$1,468,921	$1,613,144	$1,262,021
USA Rice Federation/US Rice Producers	$1,666,636	$1,480,751	$1,529,077	$1,645,068	$1,457,865
Administrative Costs	--	--	--	$350,000	--
Total	$34,500,000	$34,500,000	$34,500,000	$34,500,000	$31,701,727
					$2,798,273***

***Funds held in reserve

Foreign Market Development (FMD) Program Success Stories

USA Rice Culinary Education Program Successful in Canada: Since launching the FMD-funded USA Rice Culinary Education Program, the USA Rice Federation (USARF) has educated Canadian culinary instructors and trained the next generation of chefs in designing meals with U.S. rice. The program received the International Association of Culinary Professionals Award of Excellence, the curriculum has been adopted by at least 13 Canadian culinary institutions, and more than 5,000 culinary students have been trained. Total exports of U.S. rice to Canada reached nearly $165 million in 2010, making Canada the fourth largest market for U.S. rice.

Long-Term U.S. Sunflower Trade Activities Pay Dividends in Spain: To increase awareness of confectionary sunflower seed and build demand in Spain, the National Sunflower Association (NSA) used FMD funding to create and implement an integrated and highly successful marketing program of trade advertisements, newsletters, trade shows, seminars, trade missions, and a trade servicing program. Through this work, U.S. sales to Spain reached nearly $270 million, making Spain the top market for U.S. confection sunflower seeds, and generating jobs in Colorado, Kansas, Minnesota, North Dakota, South Dakota, and Texas.

FMD Results in Holstein Cattle Sales to Russia: The Holstein Association USA, a member of U.S. Livestock Genetics Export Inc. cooperator, effectively used FMD funds to bring livestock genetics importers and Russian dairy owners/buyers to World Dairy Expos, Holstein headquarters and U.S. dairy industry visits. These visits combined with intensive dairy herd management training familiarized potential buyers with cutting edge technology and modern dairy management practices. About $1.8 million in U.S. Holstein cattle sales resulted from these activities.

Cost-Benefit Study of Market Development Programs

A recent independent study by Global Insight, Inc., commissioned by the Foreign Agricultural Service, found that USDA's international market development programs (Foreign Market Development (FMD) Program and the Market Access Program (MAP)) have had a positive and significant impact on U.S. agricultural trade and improved farmer income. Using econometric and general equilibrium models that separated out the impacts of the programs from other economic factors that affect exports, the study found that for every additional dollar expended by government and industry on market development since the 2002 Farm Bill, U.S. food and agricultural exports increased by $35 over a number of years. In addition, increased investment in market development since 2002 increased the U.S. share of world agricultural trade by 1.3 market share points in 2009, valued at $6.1 billion more in exports. Export gains associated with the programs increased the average annual level of U.S. farm cash receipts by $4.4 billion and net cash farm income by $1.5 billion. At the same time, U.S. domestic support payments were reduced by roughly $54 million annually due to higher prices from increased demand abroad, thus reducing the net cost of the programs.

CODEX ALIMENTARIUS

Mr. Kingston: Allowing US beef producers to be subject to the whim of foreign governments who do not base their decisions on internationally recognized science-based standards creates a high level of market volatility. Abiding by internationally recognized science-based standards promotes fair trade for US and developing countries, less market volatility, and encourages safer production practices.

In preparation for the July Codex meeting, what is the US Government doing to promote inter-agency coordination, including US Trade Representative, USDA-Foreign Agricultural Service, and State department participation., to continue to promote CODEX's science-based standards?

Response: On all significant matters before CODEX, the U.S. Codex Office consults with other Federal agencies, including USDA's FAS, the Food and Drug Administration, Environmental Protection Agency, Department of Commerce, Department of State, and Office of the U.S. Trade Representative. The United States has historically been a strong supporter for science-based standards.

In preparation for the Commission meeting, the inter-agency group has been working for several months to develop a strategic communications plan and to implement actions that will generate support for selected U.S. positions. As part of this work, several third world countries have committed to assist in outreach efforts, as have representatives of the U.S. industry. This U.S. inter-agency coordination will continue through to the Commission meeting in July, where the United States will be represented by a delegation that includes officials from all of the agencies and advisors from the private sector.

BEEF TRADE WITH CHINA

Mr. Kingston: China is currently closed to US beef imports. China is potentially a $200 million market for US beef. In January 2011, a high-level U.S. negotiating team spent more than 10 days in China trying to reopen the only country still completely closed to U.S. beef.

What is the US Government doing to re-open this market to US beef and when should we expect more progress with China?

Response: Increased access for U.S. beef is a high priority for USDA. In March 2010, USTR and USDA senior officials met with their Chinese counterparts in Beijing to restart beef market access negotiations based on full consistency with the World Organization for Animal Health guidelines on bovine spongiform encephalopathy (BSE). Bilateral discussions on U.S. beef exports continued throughout the remainder of 2010, including high•level meetings between USDA and USTR officials and their Chinese counterparts. During the U.S.-China Joint Committee on Commerce and Trade meeting in December 2010, the United States and China agreed to resume beef market access talks at the start of 2011.

During the first 2 weeks of January 2011, senior officials from USTR and USDA led a team of experts from both agencies and FDA for a meeting with their counterparts in Beijing. The talks were beneficial both in assisting the two sides in understanding each other's positions on the key issues as well as in narrowing differences in a number of areas; but at the conclusion of talks there was not a clear path forward toward our goal of an agreement that is based on science, consistent with international standards and commercially viable. At this time, no further technical discussions with China are scheduled and none is foreseen prior to the Strategic Economic Dialogue Ministerial scheduled in May, in Washington.

JAPAN AND TRANS-PACIFIC PARTNERSHIP

Mr. Kingston: Historically, Japan was the #1 market for U.S. beef exports at $1.4 billion. In 2010, the US exported $640 million in US beef in Japan - well short of pre-BSE levels due to Japan's 20 month age restriction.

After seven years of no progress on this issue, including 2 years under the Obama Administration, what is the U.S. government doing to address this non-science based discrimination against US beef?

Response: USDA, in close collaboration with USTR, continues to urge the Japanese Government to resolve the beef issue in a manner that is based on science, consistent with international standards, and is commercially viable so we can normalize beef trade in this key Asian market. USDA and USTR continue to engage with Japan's Government on this important issue at multiple levels. Understandably, the recent crisis in Japan has taken attention away from this important issue, but it remains a top trade priority of the Administration.

Mr. Kingston: Recent reports have suggested that Japan may also join the Trans-Pacific Partnership.

Will resolving Japan's 20-month age restriction be insisted upon before Japan enters into TPP negotiations with the United States?

Response: Due to the urgency of the response to the recent earthquake and tsunami, Japan has decided it will not seek, at least for the immediate future, to join the Trans-Pacific Partnership (TPP). When considering the participation of potential TPP entrants, FAS considers it important to look at the overall benefits to U.S. agriculture that may come from a negotiated agreement.

TAIWAN

Mr. Kingston: Taiwan's non-science based reasons for restricting beef imports are crippling US beef sales in Taiwan. What is the U.S. government doing to address this issue?

Response: Taiwan maintains unwarranted sanitary/phytosanitary (SPS) measures that continue to serve as market access barriers to U.S. beef and beef product exports. The Obama Administration continues to press Taiwan at multiple levels and at every opportunity to fully reopen its beef market consistent with international science-based standards, as well as in a commercially viable manner.

In October 2009, the United States and Taiwan reached a final agreement on a Protocol expanding market access for U.S. beef and beef products (for human consumption) based on science, the World Organization of Animal Health guidelines, and the United States' controlled risk status. However, after the Protocol entered into force in November 2009, Taiwan's legislature adopted an amendment to Taiwan's Food Sanitation Act in January 2010. The legislation, in effect, banned imports of ground beef, certain offals, and other beef products from the United States, contrary to Taiwan's obligations under the Protocol. The United States has raised these issues with Taiwan in various venues, including in a September 2010 visit by U.S. officials. At each opportunity, the United States has stated that it expects Taiwan to act consistently with its obligations under the Protocol. Taiwan's current zero tolerance for ractopamine serves as another market barrier for U.S. beef and beef product exports to Taiwan. USDA has asked Taiwan to set an acceptable Maximum Residue Level (MRL) for ractopamine for beef and pork and is also actively working to facilitate the adoption of an MRL for ractopamine in CODEX. The U.S. Government will continue to attach importance to these beef issues and will continue to urge Taiwan to open its market fully based on science and international guidelines.

Mr. Kingston: Taiwan has suggested they would like the US beef industry to provide Taiwan with a similar export program they have with the European Union. According to some economists, an EU style (non-hormone) program is roughly less than 2-3% of US grain fed production.

Even with record beef sales and exponential growth in export demand, feed costs eat up a lot of the budget it would take for producers/feeders to switch to overhaul their production lines. Keep in mind, ractopamine is a feed additive that allows more muscle to be developed than fat. If a producer is adding ractopamine to the feed, they generate more muscle per animal than fat. Without the additive, you would have to generate more animals to make up the difference. More animals equals more feed equals more cost to producer/feeder. The US has the smallest herd in years right now. Demand for US beef is so high right now there's not much incentive for a producer/feeder/packer to risk profits when other countries are buying US beef.

Is the US Government working with Taiwan to establish a temporary maximum residue level (MRL) for ractopamine, to be used until Codex issues an MRL in July 2011?

Response: USDA, in close collaboration with USTR, continues to urge Taiwan to implement an MRL for ractopamine for beef and pork. Taiwan's current zero tolerance for ractopamine serves as a market barrier for U.S. beef and beef product exports to Taiwan. USDA is also working actively for the adoption of an MRL for ractopamine in CODEX. The Joint Expert Committee on Food Additives (JECFA), which is jointly administered by the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) and is responsible for advising CODEX in this area, has recommended that CODEX establish MRLs for ractopamine in beef and pork. Taiwan's current zero tolerance lacks a scientific basis and is out of step with the recommended JECFA standards and is inconsistent with Taiwan's own risk assessment in 2007, which found that ractopamine was safe for use in feed for cattle and swine.

PRESENCE IN FOREIGN COUNTRIES

Mr. Kingston: For the record, please provide the Committee with a table listing the countries where FAS has an office or permanent presence and the numbers of FAS employees and the number of non-FSA employees per country. Also, please specify a listing of other countries covered by the permanent office.

Response: The information is submitted for the record.

[The information follows:]

Table 1: Permanent Offices, Staffing and Country Coverage

COUNTRY	AMERICAN STAFF	FSN/LES STAFF	ADDITIONAL COUNTRY COVERAGE
Afghanistan	2	3	
Algeria	1	2	
Argentina	2	5	Paraguay; Uruguay
Australia	1	3	
Austria	0	2	
Bangladesh	0	2	
Belgium	4	7	
Bosnia/ Herzegovina	0	1	
Brazil	4	8	
Bulgaria	1	2	Kosovo; Macedonia; Montenegro
Burma	0	1	
Canada	2	5	
Caribbean Basin	4	0	Anguilla; Antigua; Barbuda; Aruba; Barbados; Bermuda; British Virgin Islands; Cayman Islands
Chile	1	4	
China	12	40	Mongolia
Colombia	2	5	
Costa Rica	2	5	

COUNTRY	AMERICAN STAFF	FSN/LES STAFF	ADDITIONAL COUNTRY COVERAGE
Croatia	0	1	
Czech Republic	0	2	
Dominican Republic	1	5	Haiti
Ecuador	0	2	
Egypt	3	5	Lebanon; Libya
El Salvador	0	2	
Ethiopia	1	2	African Union; Djibouti; Eritrea; Somalia
France	2	3	
Germany	1	4	Denmark; Finland; Iceland; Luxembourg; Norway; Slovenia
Ghana	0	1	
Guatemala	2	4	Belize
Honduras	0	2	
Hong Kong	1	5	Macau
Hungary	0	1	
India	4	11	Sri Lanka
Indonesia	2	7	
Iraq	2	3	
Israel	0	3	
Italy	3	4	Albania; Greece; Malta; UN Food Agencies (FAO, WFP, IFAD)
Jamaica	0	1	
Japan	5	15	
Jordon	0	1	
Kazakhstan	0	1	
Kenya	2	4	Burundi; Malawi; Rwanda; Tanzania; Uganda; Zambia
Korea	4	12	
Malaysia	1	5	Brunei; Papua New Guinea
Mexico	7	16	
Morocco	1	3	
Mozambique	0	1	
Netherlands	1	3	
New Zealand	1	2	
Nicaragua	0	2	
Nigeria	2	4	Benin; Cameroon; Liberia
Pakistan	2	5	
Panama	0	2	
Peru	2	5	Bolivia
Philippines	2	6	
Poland	1	4	Estonia; Latvia; Lithuania; Slovakia
Romania	0	2	
Russia	5	11	Armenia; Belarus

COUNTRY	AMERICAN STAFF	FSN/LES STAFF	ADDITIONAL COUNTRY COVERAGE
Saudi Arabia	1	2	
Senegal	2	3	Burkina Faso; Chad; Cote d'Ivoire; Mali; Niger; The Gambia
Serbia	0	2	
Singapore	0	2	
South Africa	3	5	Angola; Botswana; Lesotho; Madagascar; Mauritius; Mozambique; Namibia; Swaziland; Zimbabwe
Spain	1	3	Portugal
Sweden	0	2	
Switzerland	3	0	
Syria	0	1	
Taiwan	3	7	
Thailand	2	6	
Tunisia	0	2	
Turkey	2	5	Azerbaijan; Georgia; Kyrgyzstan; Tajikistan; Turkmenistan;
Ukraine	1	3	Moldova
United Arab Emirates (UAE)	1	4	Bahrain; Kuwait; Oman; Qatar
United Kingdom	1	4	Ireland
Uzbekistan	0	1	
Venezuela	1	6	
Vietnam	3	8	
Yemen	0	1	

Mr. Kingston: Note any plans for expansion to future offices.

Response: FAS plans for future expansion are being reviewed internally due to anticipated fiscal constraints in FY 2012.

Mr. Kingston: Lastly, has any office closed in the past five years? If so, please provide an explanation as to why.

Response: Over the past 5 years, FAS has closed five offices: Manila, Philippines Agricultural Trade Office (FY 2008); Copenhagen, Denmark (FY 2009); Dublin, Ireland (FY 2010); Athens, Greece (FY 2010); and Bonn, Germany (FY 2011). FAS conducts an annual rightsizing, aligning the number and location of staff assigned overseas with foreign policy priorities, security, and budgetary constraints. In Europe, FAS shifted staff resources from more mature markets to growing export markets in China and Southeast Asia. The Agriculture Trade Office in Manila was closed due to budgetary constraints and some of the functions were transferred to the FAS Office of Agriculture Affairs in Manila.

Mr. Kingston: Please provide the Committee with a breakdown of costs charged to FAS by the Department of State for the past five fiscal years as well as estimated charges for FY 2011 and FY 2012.

Response: Included for the record is a breakdown of costs charged to FAS by the Department of State for International Cooperative Administrative Support Services (ICASS), Capital Security Cost Share (CSCS), and other miscellaneous reimbursable agreements, for the past five fiscal years as well as estimated charges for FY 2011 and FY 2012. The information is submitted for the record.

[The information follows:]

(Dollars in Millions)

State Department Reimbursable Agreements	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
ICASS	$10.274	$10.661	$12.232	$12.637	$12.610	$15.557	$20.350
CSCS	2.625	5.539	7.073	9.545	9.684	8.499	9.328
Other Misc. Reimbursable Agreements	1.371	1.587	1.468	1.565	1.646	1.931	2.041
Total	$14.270	$17.787	$20.772	$23.748	$23.940	$25.988	$31.719

Mr. Kingston: Please provide the Committee with an explanation of the Agency's plans to migrate Information Technology services to the Department of State as well as the costs for the past three years and current year costs.

Response: Under the governance of the Department's Office of the Chief Information Officer (OCIO), plans to migrate Information Technology services to the Department of State have been determined, to be the most economical means to improve the security posture of the computing environment for overseas FAS personnel to an acceptable level.

Multiple years of too few resources being invested in FAS'overseas Information Technology infrastructure made it increasingly difficult to defend against today's sophisticated cyber attacks. In response to an intrusion, OCIO sought the opinion of a highly respected security firm on the viability of salvaging the FAS network. The security firm's expert assessment of the extent of the compromise and the state of FAS' Information Technology security posture was that the FAS network must have new architecture and must be rebuilt. Preliminary estimates to build and operate a new overseas network were calculated in the tens of millions of dollars. More cost effective solutions were pursued and ultimately, OCIO made the decision to move overseas FAS personnel to the Department of State Foreign Affairs Network.

Leveraging the Department of State Foreign Affairs Network provides a secure computing platform for all overseas FAS personnel without the need for a large capital investment or the significant lead time required for building a new network. Further, economies of scale make previously cost prohibitive, services such as local desk-side support, affordable.

All Information Technology services and service levels provided to FAS users on the Department of State Foreign Affairs Network are governed by a Memorandum of Agreement between both USDA and Department of State executed by each Department's Chief Information Officer.

Historically, these costs have been funded through the Section 11 authority of the Commodity Credit Corporation. An increase in the base appropriations for migrated IT services will be offset with a dollar for dollar reduction in the amount of Section 11 requested for IT activities. Current and previous year costs are detailed below.

[The information follows:]

(Dollars in Millions)

FY 2008	FY 2009	FY 2010	FY 2011
$3,381	$3,144	$5,619	$5,067

To date, 94 of 100 overseas locations have been migrated to the Department of State Foreign Affairs Network. The remaining six locations are planned to migrate during FY 2011.

Mr. Kingston: Please provide the Committee with a status of the on-going GAO Report related to Embassy Services Cost Sharing. In particular, when did GAO establish the entrance conference, what is the focus of the study in particular, and when is the expected completion date?

Response: FAS held an entrance conference for the Government Accountability Office audit of Embassy Services Cost Sharing on December 13, 2010. The focus of this audit is user experience with the International Cooperative Administrative Support Services system. Specifically, the audit will seek to determine the extent to which use of the system reduced administrative costs, improved the effectiveness of administrative operations to fulfill agencies' missions, and allocated costs and responsibility for carrying out administrative services among U.S. agencies on a rational and equitable basis. The audit also will explore any challenges that may exist to the system achieving more efficient delivery of administrative services and providing quality services. The expected completion date is September 2011.

MCGOVERN-DOLE FOOD FOR EDUCATION

Mr. Kingston: Please provide the Committee with a status of the on-going GAO Report related to McGovern-Dole. In particular, when did GAO establish the entrance conference, what is the focus of the study in particular, and when is the expected completion date?

Response: FAS held an entrance conference for the Government Accountability Office audit of the McGovern-Dole International Food for Education and Child Nutrition program on December 13, 2010. The focus of this audit is to determine the extent to which USDA has monitored and evaluated the program's effectiveness, and the information that is available on the extent to which the program is achieving its objectives; the actions that USDA and its implementing partners have taken to improve the program and to what extent USDA has addressed deficiencies identified by GAO in 2002; and the challenges, if any, that USDA faces in incorporating good practices from other school feeding programs, including addressing key factors identified by GAO in 2002. The expected completion date is May 19, 2011.

Mr. Kingston: How does USDA measure success in the McGovern-Dole program?

Response: USDA measures intermediate successes in the McGovern-Dole program through increased student attendance, enrollment, and continuation rates, especially for girls. The ultimate measurement of success is the graduation of programs from donor-led funding to the responsibility of recipient country's national or local governments. Many of the McGovern-Dole programs have made great strides toward graduation, and USDA gives priority to funding the continuation of these programs to maximize graduation opportunities. USDA looks forward to graduating McGovern-Dole programs in Guatemala, Kenya, Guinea-Bissau, Laos, and Bolivia during the next few years.

Mr. Kingston: If USDA increased McGovern-Dole by ten and twenty-five percent respectively, how would the Department apply these resources?

Response: Any change in funding or costs will require adjustments in the number and size of McGovern-Dole programs. Greater funding will allow for more programs, while smaller budgets will reduce the number of programs. Specifically, if the McGovern-Dole program were to receive a 10 percent increase in funding, the program could expand school feeding to include an additional 400,000 children. With a 25 percent increase, the program would feed an additional one million children. This increase would allow USDA to comprehensively improve the educational and nutritional needs of poor children around the world.

Mr. Kingston: Conversely, if the Department faced a ten and twenty-five percent decrease, please inform the Committee of the expected impact.

Response: At a time when food prices are high and food insecurity continues to rise, a budget decrease of 10 to 25 percent would result in a clear setback in McGovern-Dole program achievements. With a decrease of this magnitude, USDA would not be able to continue to fund all currently operating projects, making progress towards sustainability and graduation difficult to achieve. Further, a decrease would mean 400,000 children (10 percent decrease) or one million children (25 percent decrease) would not receive school meals, which would erode our efforts to address widespread food insecurity and improve education.

Mr. Kingston: What can USDA point to as the key measures of success in the McGovern-Dole Program for the past five years?

Response: Key measures of success in the McGovern-Dole program focus on sustained improvements to education, enrollment and attendance, especially for girls. Over the past 5 years, McGovern-Dole programs in Guatemala, Senegal, and Bangladesh have achieved success in these areas, with enrollment and attendance in participating schools in Guatemala increasing by 12.5 and 9.5 percent respectively. In Senegal, enrollment in participating schools expanded by 41 percent since 2008, and in Bangladesh enrollment and attendance in schools increased by 9 and 83 percent respectively since 2009.

The ultimate measure of success, however, is measured through program graduation. In 2007, the McGovern-Dole program in Moldova administered by International Partnership for Human Development (IPHD), became one of the first programs to effectively transition activities to the local public authorities and communities. More recently, the Government of Kenya took the initial step in transitioning to a government-funded and managed school meal program in 2009 by committing itself to feeding 550,000 school children who were previously benefiting from the World Food Program (WFP) supported by McGovern-Dole. USDA anticipates that the McGovern-Dole program in Kenya, as well as programs in Guatemala, Guinea-Bissau, Laos, and Bolivia will be in a position to graduate in the next few years.

AGENCY'S CORE MISSION

Mr. Kingston: The Foreign Agricultural Service provides the Nation with a critical function by their facilitation of export opportunities when dealing with other foreign governments, regional organizations, and/or foreign national industries. The Agency is also responsible to some extent with global food security.

Some believe that USDA has shifted too much of their vital resources to the global security side while sacrificing the responsibilities on the development and trade side of the equation. Generally, has FAS shifted more resources proportionally to global food security in the past three to four years at the detriment of U.S. agricultural trade? Please provide specifics in your response.

Response: Since 2007, there has been an increased focus on global food security due to higher food prices, natural disasters, and global economic and political instability. However, the impact of USDA's increased focus on global food security to our commodity trade activities has been minimal through FY 2011. For FY 2012, FAS proposes a modest increase in resources related to global food security in order to support agricultural reconstruction and stabilization activities. Funding for those activities would be transferred from Departmental Management to FAS. The information is submitted for the record.

[The information follows:]

Budgetary Resources for Trade and Global Food Security				
Activity	2009 Actual	2010 Actual	2011 Estimate	2012 Estimate
Agricultural Exports	66%	65%	66%	64%
Food Security	20%	20%	20%	24%
Other	14%	15%	14%	12%
Total Budgetary Resources	100%	100%	100%	100%

Mr. Kingston: Please provide specifics on FAS' statutory authority to support global food security in comparison to the responsibilities of US AID, the Department of State, and other U.S. governmental bodies.

Response: FAS carries out international development and technical assistance and training at the request of USAID and the Department of State under authority of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 et seq.). FAS also draws upon at least three statutory authorities given to USDA to support global food security through technical assistance, training, and scientific exchanges with developing countries. The first, 7 U.S.C. 3291, which incorporates the international provisions of the National Agricultural Research, Extension and Teaching Policy Act of 1977, as amended, authorizes FAS and other USDA agencies to administer and coordinate programs in international research and scientific and technical cooperation with other governmental agencies, land grant universities, international organizations, international agricultural research centers, and others institutions. FAS also administers the Cochran Fellowship Program, authorized under 7 U.S.C. 3293, that provides U.S.-based agricultural training opportunities for senior and mid-level specialists and administrators from middle-income countries, emerging markets, and emerging democracies to improve their agricultural systems and strengthen and enhance trade links with the United States. In addition, FAS' Norman E. Borlaug International Agricultural Science and Technology Fellowship Program, authorized under 7 U.S.C. 3319j, helps developing countries strengthen sustainable agricultural practices by providing scientific training and collaborative research opportunities to visiting researchers, policymakers, and to university faculty from developing countries.

STUDY TO RESTRUCTURE AND STREAMLINE THE FEDERAL GOVERNMENT

Mr. Kingston: What are the pros and cons of the Obama Administration's proposal to study the transfer of FAS to the Department of State?

Response: We are supportive of the President's efforts to find efficiencies in the government and have pledged our cooperation in this endeavor. We have been contacted by OMB and have provided information about the agency and our programs and responsibilities.

We are reviewing the trade-related activities of the Department and evaluating what efficiencies might be gained or lost through consolidation with other trade agencies.

Mr. Kingston: What are the pros and cons of consolidating all trade functions of the U.S. government into one single organization?

Response: There are some unique challenges in the trade of agricultural products that require technical expertise not normally housed in a trade agency. We believe that USDA has developed in FAS a focal point where agricultural exporters can access the full range of trade services, designed specifically to take into account the special challenges of agriculture.

FAS, the Department's lead trade agency, through its Attaché Service, provides international commodity reporting which plays an important role in supply and demand estimates and domestic policy making. USDA attachés also monitor and resolve trade issues, engage in market promotion activities, and coordinate food aid and technical assistance programs overseas. Not all of these functions fall within the mandate of a trade agency. It will be a challenge to identify an efficient way to unbundle these services.

FAS also has access to the technical expertise of the Department, especially in areas of animal and plant health, and food safety to resolve some of the technical issues involved in exporting agricultural products.

We have a 50-year association with agricultural associations that has enjoyed great success and exports are at an all-time high. It is a model for public-private partnerships. It is important that these stakeholders are consulted before any final decisions are made.

AGRICULTURAL TRADE DATA

Mr. Kingston: Please provide the Committee with a list of the top ten agricultural exported and imported products for fiscal years 2007 through 2010 and estimated for 2011 by volume and dollars.

Response: The information is submitted for the record.

[The information follows:]

Top 10 Agricultural Exports by Value and Quantity

($1000/Fiscal year)

(Metric Tons)

		2007		2008		2009		2010		2011 (Forecast*)
Rank	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*
1	Coarse Grains	$9,782,680	Coarse Grains	$15,749,639	Soybeans	$13,814,845	Soybeans	$16,944,608	Soybeans	$21,200,000
		59,050,756		68,205,412		*34,946,742*		*41,769,540*		*43,300,000*
2	Soybeans	8,482,670	Soybeans	14,515,719	Coarse Grains	9,982,093	Coarse Grains	9,843,180	Coarse Grains	13,400,000
		30,308,741		30,783,594		*51,442,344*		*54,090,503*		*54,100,000*
3	Wheat	6,579,492	Wheat	12,332,402	Red Meats, FR/CH/FR	6,852,480	Red Meats, FR/CH/FR	7,600,377	Wheat	12,300,000
		29,635,918		32,846,754		*2,573,182*		*2,669,693*		*36,400,000*
4	Red Meats, FR/CH/FR	5,095,584	Red Meats, FR/CH/FR	7,130,208	Wheat	5,997,360	Wheat	5,868,339	Cotton	8,800,000
		1,876,433		2,666,934		*22,544,891*		*25,848,472*		*3,400,000*
5	Cotton	4,304,857	Cotton	4,762,785	Poultry Meat	3,940,769	Cotton	4,840,199	Red Meats, FR/CH/FR	8,600,000
		3,128,137		2,970,309		*3,453,617*		*2,747,572*		*2,400,000*
6	Poultry Meat	3,032,858	Dairy Products	4,069,786	Processed Fruit & Veg	3,650,856	Feeds & Fodders	4,219,082	Fresh Fruit & Veg*	6,300,000
		2,939,647		1,433,905		*2,664,928*		*17,613,552*		*N/A*
7	*Fresh Fruit*	3,010,394	Poultry Meat	4,049,618	Cotton	3,560,625	Tree Nuts	3,954,871	Feeds & Fodders	6,200,000
		2,551,956		3,495,306		*2,805,186*		*918,385*		*18,900,000*
8	Processed Fruit & Veg	3,005,221	Processed Fruit & Veg	3,663,692	Fresh Fruit	3,521,769	Processed Fruit & Veg	3,831,923	Processed Fruit & Veg	6,000,000
		2,307,901		2,775,283		*2,891,788*		*2,682,544*		*N/A*
9	Tree Nuts	2,938,536	Fresh Fruit	3,571,948	Tree Nuts	3,399,820	Fresh Fruit	3,798,658	Tree Nuts	4,700,000
		649,964		2,951,867		*859,029*		*2,985,010*		*N/A*
10	Dairy Products	2,506,210	Feeds & Fodders	3,553,499	Feeds & Fodders	3,226,790	Soybean Meal	3,794,673	Soybean Meal	3,600,000
		1,174,666		13,412,271		*12,837,959*		*10,137,460*		*8,300,000*
Total		82,216,762		114,909,725		96,295,144		108,663,682		135,000,000

*Note that the fresh fruit category is not separately forecasted

Top 10 Agricultural Imports by Value and Quantity

($1000/Fiscal year)

(Metric Tons unless otherwise noted)

		2007		2008		2009		2010		2011 (Forecast*)
Rank	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*	*Product*	*Value/Volume*
1	Wine and Beer	$8,229,224	Wine and Beer	$8,414,827	Wine and Beer	$7,511,674	Wine and Beer	$7,710,590	Wine and Beer	$8,000,000
	KiloLiters (KL)	*4,403,608*	*KL*	*4,223,973*	*KL*	*4,054,172*	*KL*	*4,083,457*	*KL*	*4,400,000*
2	Snack Foods	4,911,161	Proc Fruit & Veg.	5,316,762	Proc. Fruit & Veg.	5,181,583	Snack Foods	5,647,919	Proc. Fruit & Veg.	7,600,000
		1,852,417		*4,174,065*		*4,024,446*		*1,814,955*		*4,600,000*
3	Proc. Fruit & Veg.	4,690,411	Snack Foods	5,216,796	Snack Foods	5,007,746	Proc. Fruit & Veg	5,330,533	Fresh Fruit	7,400,000
		4,061,267		*1,796,796*		*1,688,373*		*4,090,714*		*9,400,000*
4	Red Meats, FR/CH/FR	4,474,969	Fresh Vegetables	4,470,899	Other Fresh Fruit	4,552,870	Fresh Vegetables	5,207,941	Fresh Vegetables	5,700,000
		1,422,336		4,597,333		4,582,994		5,376,464		*5,600,000*
5	Other Fresh Fruit	4,205,530	Other Fresh Fruit	4,233,183	Fresh Vegetables	4,264,827	Other Fresh Fruit	5,075,329	Coffee Beans & Prod	5,200,000
		4,547,203		*4,429,589*		*4,559,956*		*4,787,593*		*1,500,000*
6	Fresh Vegetables	4,199,578	Red Meats, FR/CH/FR	4,030,037	Red Meats, FR/CH/FR	3,897,769	Red Meats, FR/CH/FR	4,221,268	Red Meats, FR/CH/FR	4,200,000
		4,386,163		*1,188,693*		*1,266,901*		*1,229,592*		*1,200,000*
7	Coffee, Unroasted	3,151,852	Coffee, Unroasted	3,745,924	Coffee, Unroasted	3,496,239	Coffee, Unroasted	3,546,496	Rubber, natural	4,200,000
		1,326,277		*1,306,349*		*1,299,476*		*1,214,857*		*1,100,000*
8	Live Animals	2,701,375	Live Animals	2,936,243	Other Vegetable Oils	2,415,778	Rubber & Allied Products	2,448,090	Cocoa & Chocolate*	4,400,000
	NO	24,819,510	*NO*	24,831,255		1,607,639		917,438		*1,300,000*
9	Essential Oils	2,430,777	Other Vegetable Oils	2,922,558	Essential Oils	2,405,765	Essential Oils	2,413,601	Vegetable Oils*	4,300,000
		89,207		*1,610,816*		*78,233*		*81,107*		*3,600,000*
10	Rubber & Allied Products	2,102,954	Rubber & Allied Products	2,729,037	Live Animals	1,981,574	Other Vegetable Oils	2,374,437	Essential Oils	2,600,000
		1,009,407		*1,070,592*	*NO*	*19,725,542*		*1,629,642*		*N/A*
Total		70,062,946		79,319,971		73,403,965		78,953,244		

*The forecasted values and categories are from the USDA Outlook for U.S. Agricultural Trade published in February 24, 2011.
Some of the categories do not correspond to the historic data.

Mr. Kingston: Please provide the Committee with a list of the top ten agricultural export and import countries for fiscal years 2007 through 2010 and estimated for 2011 by volume and dollars.

Response: The information is submitted for the record.

[The information follows:]

Top 10 Agricultural Export Markets by Value

($1000/Fiscal year)

	2007		2008		2009		2010			2011 (Forecast)
Rank	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*
1	Canada	$13,260,945	Canada	$16,257,417	Canada	$15,539,852	Canada	$16,565,793	China	$20,000,000
2	Mexico	12,330,967	Mexico	15,185,987	Mexico	13,325,151	China	15,070,151	Canada	18,500,000
3	EU 27	8,039,643	Japan	13,061,012	Japan	11,182,226	Mexico	13,931,517	Mexico	17,000,000
4	Japan	9,738,828	China	11,169,614	China	11,073,279	Japan	11,227,957	Japan	13,000,000
5	China	7,050,986	EU 27	10,659,874	EU 27	7,611,082	EU 27	8,511,005	EU 27	10,000,000
6	Korea, South	3,189,559	Korea, South	5,552,299	Korea, South	3,820,529	Korea, South	4,982,388	Korea, South	6,200,000
7	Taiwan	2,917,141	Taiwan	3,509,420	Taiwan	2,888,568	Taiwan	3,174,354	Taiwan	3,700,000
8	Egypt	1,685,179	Indonesia	2,205,325	Hong Kong	1,736,985	Hong Kong	2,460,285	Hong Kong	3,300,000
9	Indonesia	1,374,498	Egypt	2,198,655	Indonesia	1,667,153	Indonesia	2,129,504	Indonesia	2,700,000
10	Turkey	1,362,913	Russia	1,887,529	Egypt	1,420,565	Turkey	2,011,927	Turkey	2,700,000

Top 10 Agricultural Import Suppliers by Value

($1000/Fiscal year)

	2007		2008		2009		2010			2011 (Forecast)
Rank	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*
1	European Union-27	$14,989,571	Canada	$17,936,165	Canada	$15,354,079	Canada	$15,681,739	Canada	$17,700,000
2	Canada	14,703,228	European Union-2	15,781,450	European Union-2	13,641,749	European Union-2	14,151,570	Mexico	15,400,000
3	Mexico	9,916,025	Mexico	10,760,877	Mexico	11,247,946	Mexico	12,971,751	European Union-2	14,500,000
4	China	2,798,137	China	3,426,263	China	2,914,554	China	3,209,862	China	3,700,000
5	Australia	2,609,604	Indonesia	2,668,981	Brazil	2,550,772	Brazil	2,644,082	Brazil	3,500,000
6	Brazil	2,538,560	Brazil	2,597,516	Australia	2,442,331	Indonesia	2,631,197	Indonesia	3,500,000
7	Indonesia	1,938,318	Australia	2,403,538	Chile	2,134,802	Australia	2,318,529	Chile	2,300,000
8	Chile	1,919,116	Chile	1,960,552	Indonesia	1,998,780	Chile	2,274,308	Australia	2,200,000
9	New Zealand	1,700,794	Thailand	1,831,007	New Zealand	1,779,012	Thailand	1,916,751	Thailand	2,200,000
10	Colombia	1,518,201	New Zealand	1,739,618	Colombia	1,771,259	Colombia	1,853,976	Colombia	2,200,000

OBLIGATIONS UNDER OTHER USDA APPROPRIATIONS

Mr. Kingston: On page 31-4 of the FY 2012 Explanatory Notes, please provide a brief explanation for the amounts in fiscal years 2010 for the following line items: Market Access Program Administrative Costs; Local and Regional Procurement Administrative Costs; Food for Progress Administrative Costs; McGovern-Dole Program-Administrative Costs; Landsat Data and Support Export Programs; IRM Activities; IRM Activities (Non-CCC); Emerging Markets Program; Capital Security Cost Share; Codex; and Trade Negotiations and Biotechnology Fund (OSEC). Also, provide an explanation for the two expenditures under "Other Federal Funds" for fiscal year 2010.

Response: FAS administers a variety of programs that are designed to facilitate access to international markets and thereby help to support a competitive U.S. agricultural system. Funding for such activities are made available to FAS through reimbursable agreements. Although funded by other agencies, these activities are an important component of the Department's efforts to expand market access support economic development, and enhance food security in developing countries.

Under the CCC Charter Act, USDA is authorized to be reimbursed for administrative costs for CCC-related expenses pursuant to Section 11. In FY 2010, FAS incurred costs to administer CCC-funded programs, such as the Market Access Program; Local and Regional Procurement Pilot Program; and Food for Progress Program. FAS would be adversely affected without the continued authority to use CCC funds for the administrative cost of CCC programs which are carried out by FAS. The McGovern-Dole program administrative costs are paid directly from the McGovern-Dole program appropriation that FAS manages. Additional CCC funds were provided for Internet Resource Management (IRM) activities. CCC provides FAS funding to support their IRM activities related to the administration of CCC programs. Non-CCC IRM activity funds are provided to FAS for global communication upgrades, security related expenses, and capital replacement plan costs, as specifically authorized in the annual appropriations act. Additional obligations for Landsat Data and Support Export Programs, Emerging Markets Program, Capital Security Cost Share, CODEX, and Trade Negotiations and Biotechnology Fund (OSEC) reflect reimbursements and transfers from other USDA agencies for shared costs and services for programs for which FAS serves as USDA's lead agency.

In addition, other federal funds are made available to FAS through reimbursable agreements for technical assistance, training, and research activities that FAS carries out overseas on behalf of U.S. Agency for International Development, foreign governments, and international organizations. Other Federal funds are also used for agricultural reconstruction and stabilization activities that are funded by USAID and the Department of State.

COCHRAN AND BORLAUG FELLOWSHIP PROGRAMS

Mr. Kingston: Please explain how increased funding for the Cochran and Borlaug Fellowship programs will improve FAS' ability to provide technical assistance and capacity building programs. Also, please provide base funding levels for both programs.

Response: Through the Cochran Fellowship Program and the Borlaug Fellowship program, FAS is able to provide custom-designed training and collaborative research opportunities for priority countries, with the goal of enhancing U.S. market access, expanding U.S. agricultural exports, and improving global food security and food safety.

Increased funding for Cochran and Borlaug will improve FAS' ability to respond to requests for training in new countries such as Cambodia, Ethiopia, Haiti, Ivory Coast and Rwanda, and to expand research opportunities in priority countries. Additional funding will also allow FAS to increase the number of Cochran and Borlaug Fellows in such important markets as China, Brazil, India, Vietnam, Mexico, and South Africa.

These two programs play an important role in both advancing USDA's contribution to food security initiatives, such as Feed the Future, and providing targeted assistance in fragile markets such as Iraq, Afghanistan, and Pakistan. The programs are also an essential tool in helping FAS address agricultural bilateral-trade issues with developing countries around the world *via* initiatives such as the U.S.-India Agriculture Dialogue and the U.S.-Indonesia Comprehensive Partnership. Finally, these programs contribute to achieving broader U.S. policy goals, including the U.S. Government's Climate Change Initiative and the President's National Export Initiative, by strengthening trade linkages between the United States and eligible countries.

The information is submitted for the record.

[The information follows:]

Table 1:
Cochran Fellowship Program Funding Levels for FYs 2010-2012

(Dollars in Thousands)

Type of Funding	FY 2010 Actual		FY 2011 Estimate		FY 2012 Estimate	
	Amount	Number of Participants	Amount	Number of Participants	Amount	Number of Participants
Included as Part of FAS Base Funding Request for Salaries and Expenses	$4,877	354	$1,500	144	$2,000	157
Carry-over Funds from Prior Fiscal Years (tracked separately, beginning in FY 2011)	$0	------	$3,350	321	$1,500	118

Attached table also includes funding from other sources.

Table 2:
Borlaug Fellowship Program Funding Levels for FYs 2010-2012

(Dollars in Thousands)

Type of Funding	FY 2010 Actual		FY 2011 Estimate		FY 2012 Estimate	
	Amount	Number of Participants	Amount	Number of Participants	Amount	Number of Participants

Included as Part of FAS Base Funding Request for Salaries and Expenses	$1,967	44	$2,000	66	$3,000	99

Questions Submitted by Mr. Latham

DAIRY EXPORTS

Mr. Latham: According to your testimony today, the forecast for agricultural exports is estimated to be $135.5 billion with a positive trade balance of about $48 billion. How much of that positive balance is due to dairy exports?

Response: Of the $48 billion positive balance (i.e. surplus), dairy exports account for $1 billion.

Mr. Latham: Does the USDA plan to make any bonus awards under the Dairy Export Incentive Program during the remainder of FY 11 or in FY 12? Why not?

Response: Global dairy markets are experiencing strong import demand and prices are relatively strong. Consequently, key U.S. dairy commodities such as cheese, butterfat, and nonfat dry milk are internationally competitive. FAS expects this favorable situation to continue during FY 2011. The outlook for U.S. dairy exports remains bright with U.S. dairy exports forecasted to grow by 10 percent over the previous fiscal year, reaching $3.7 billion.

At this time, no nation, including the European Union, is using export subsidies for dairy products. For the balance of FY 2011 and into FY 2012, we do not anticipate using the Dairy Export Incentive Program (DEIP). Nevertheless, if warranted by conditions, USDA stands ready to award DEIP bonuses.

DAIRY IMPORT ASSESSMENTS

Mr. Latham: The USDA recently announced a final rule on dairy import assessments. This rule has been in process for almost 10 years. Meanwhile the argument for the assessment was made when dairy imports were growing. Dairy consumption is up in the US, dairy imports are no longer growing, and the US is running a trade surplus in dairy. What, in USDA's view, drove this rule past the concerns that had stopped this rule from being promulgated in the past?

Response: The 2002 Farm Bill required importers to pay an assessment for the Dairy Promotion and Research Program comparable to the assessment paid by domestic producers as required under the Dairy Production Stabilization Act of 1983. It was not implemented at that time because the United States Trade Representative (USTR) determined there was an unequal treatment issue that could make the United States vulnerable to a challenge in the World Trade Organization (WTO). Specifically, imports from all sources would be subject to an assessment while domestic dairy farmers in Alaska, Hawaii, the District of Columbia, and the Commonwealth of Puerto Rico were not required to pay into the program. The 2008 Farm Bill resolved the unequal treatment issue by expanding the domestic fee to producers in all states and Puerto Rico. It requires importers to pay an assessment at the rate of 7.5 cents per hundredweight of milk, or the equivalent thereof.

With the final rule published on March 18, 2011, dairy farmers from Alaska, Hawaii, the District of Columbia, and the Commonwealth of Puerto Rico will be required to pay into the program as of April 1, 2011. The dairy import assessment will become effective August 1, 2011.

Mr. Latham: Some argue that this assessment is a non-tariff trade barrier. What is USDA's view of that argument?

Response: USDA first issued a proposed rule to implement the statute in May, 2009. Numerous comments were submitted in response to that notice. USDA gave serious consideration to all of those comments and made some significant changes to the proposed rule as a result. Throughout the process, USDA has consulted USTR to ensure that the program is implemented in a manner consistent with the international trade obligations of the Federal government.

Mr. Latham: How long do you think it will be before countries that we export dairy to start to assess our exports?

Response: To be consistent with their WTO obligations, they would only be able to charge fees equivalent to what they charge their domestic producers, and they would have to have in place a system of domestic market promotion that would benefit imports as well as domestic product. We are not aware of any other country that currently meets these conditions.

Questions Submitted by Mr. Aderholt

FSA SECURTY

Mr. Aderholt: What type of security measures are in place at local FSA offices? Talk about the necessity of these measures and the costs.

Response: Security measures in place at FSA county offices vary depending on risk. For example, if the FSA office is co-located with a court, other federal agency, or in a high-crime area, it may have more advanced security than a stand-alone office in a low crime area. In compliance with Executive Order 12977 and 13286, all protective measures in place at FSA facilities nationwide are in line with the Interagency Security Committee's (ISC's) Physical Security Criteria (PSC) for Federal facilities. The ISC's standards and best practices are designed for federal security professionals responsible for protecting nonmilitary Federal facilities in the United States.

The ISC's PSC establishes baseline security measures for all Federal facilities and provides a framework for customizing security to address unique risks at a facility.

FSA is updating plans for conducting risk assessments on all FSA facilities nationwide to remain in compliance with the ISC standards. These risk assessments dictate what level of protection is required for each facility.

FSA participated in listening sessions along the Southwest Border in late 2010 that were coordinated by the US Department of Agriculture's Office of Homeland Security & Emergency Coordination (OHSEC). This resulted in developing various measures to increase employee security along the border and across the country. Immediate steps include security awareness training sessions, as well as longer term solutions such as better access to Global Positioning System (GPS) technology, improved policies and procedures, and increased access to law enforcement information.

The costs of protective measures vary with the required measures themselves; in most cases, these costs are built into the lease of the facility. The ISC standards aim to balance cost with provision of necessary protection of both Federal employees and customers across the country.

FSA works closely with the USDA Office of Inspector General to ensure that all security concerns are addressed expeditiously by either the FSA office or local law enforcement. Security facility risk assessments are coordinated with other USDA agencies co-located with FSA in order to reduce costs, as well as with USDA OHSEC.

CROP REPORTING

Mr. Aderholt: Concerning your efforts to streamline crop reporting, what cost savings for USDA do you expect as a result of these measures?

Response: The Acreage Crop Reporting Streamlining Initiative (ACRSI), workgroup is in the process of developing recommendations to simplify reporting processes, dates, and data definitions used in USDA programs. Agencies participating include the Risk Management Agency (RMA), the Farm Service Agency (FSA), the Natural Resources Conservation Service (NRCS), and the National Agricultural Statistics Service (NASS). ACRSI will lead to the redesign of business processes and definitions to allow for common program participation information to be reported once and redistributed to the USDA programs in which the producer chooses to participate. USDA anticipates modest cost savings associated with single data collection, but the greatest savings will be the reduction in the producer's time to report information for USDA programs. However, until there is further development and refinement of these processes and the associated impacts to the various programs administered by the agencies, no cost estimate is currently available.

By streamlining and automating reporting, ACRSI would lessen the reporting burden on producers participating in USDA programs, while simultaneously improving program integrity through consistent reporting and data collection across all USDA agencies and programs. One ultimate goal is to utilize data from a producer's precision global positioning systems (GPS) monitoring equipment or farm management system to assist in meeting USDA reporting requirements for production, and planted and harvested acreage. RMA is working with Precision Ag industry to refine equipment and data collection standards and compliance processes for consistency among the various equipment vendors. Another goal of ACRSI is to facilitate establishing a single data collection point, as an option for the producer to report their information.

Mr. Aderholt: Regarding verification of crop lands that FSA and RMA must conduct, are there technology advances with satellite or digital photography where savings in these areas could be realized?

Response: RMA expanded its Strategic Data Acquisition and Analysis (SDAA) efforts by incorporating additional remote sensing and geospatial analyses capabilities into its data warehousing and data mining initiatives. RMA and SDAA has been very successful using imagery to identify and prosecute fraud and abuse, efforts that lead to savings in program costs.

SDAA is developing an Automated System that uses satellite data to detect and classify crop growth patterns at a field level. System applications that are being analyzed include: validation of reported crop data to RMA and FSA, identifying multiple cropping patterns and use, and evaluating crop productivity and an assessment of the effects of weather on crop production. All of these efforts are aimed at improving program integrity and creating greater efficiencies in program administration. At this time there is no quantifiable estimate of savings to be realized.

FSA currently uses aerial (digital) photography through the National Agricultural Imagery Program (NAIP) for critical compliance efforts including setting farm/field boundaries, mapping wetlands, etc. This digital photography will also serve as the backbone of efforts to streamline producer reporting requirements across several USDA agencies. The currently available non-defense satellite imagery does not have the resolution or detail needed for these purposes. However, the Risk Management Agency (RMA) has successfully used satellite imagery to prosecute fraud and abuse in the Federal Crop Insurance Program. This success is due to the ability to use imagery obtained over several months on successive satellite passes to prove, for example, that a farmer was not prevented from planting due to natural causes. RMA's use of successive satellite passes is more cost effective than using more costly FSA NAIP aerial photography. These alternate sources of imagery provide increased flexibility for verification of crop lands based on program need.

SURE PROGRAM

Mr. Aderholt: Since FSA is on the front lines of implementing the SURE program, what feedback or insight do you have concerning that program?

Response: The Supplemental Revenue Assistance Payments (SURE) provides certainty for producers as a standing crop disaster program. In 2008, FSA paid out SURE program benefits of over $2 billion to cover crop production, quality, and revenue losses. However, one of the biggest concerns we hear from producers regarding SURE is the delay between incurring losses and receiving assistance. The statute requires FSA to establish a National Average Market Price based on a 12 month marketing period, to determine the value of revenue. FSA must also consider Direct and Counter-Cyclical Program (DCP) payments, Average Crop Revenue Election (ACRE) program payments, and marketing loan gains as revenue to determine the total revenue to compare against the guarantee and finalize a SURE payment. Thus, FSA is not able to finalize a producer's SURE payment until after the subsequent crop year's harvest. Other concerns brought to our attention include losses being determined on a whole farm concept. Unlike prior ad hoc disaster programs, different crops or land located in multiple counties do not stand alone when determining a loss. Therefore, a crop and/or land that did not suffer a significant loss may diminish or offset a crop suffering a more significant loss. Lastly there is concern among producers regarding the requirement that a producer insure all crops of economic significance to maintain eligibility for SURE.

Mr. Aderholt: I know there were some issues or bumps that y'all had to overcome with old record keeping methods, paper spreadsheets, and non-electronic records. Have those issues been resolved and were there any gross over payments or underpayments that you have had difficulty recouping or repaying?

Response: No, these issues have not been fully resolved although FSA and RMA have both improved data sharing for the 2009 program. Due to limited resources, FSA has not been able to fully automate the Supplemental Revenue Assistance Payments (SURE) program application process. As a result, FSA will continue to take applications and process data using an Excel workbook. FSA continues to improve this process to minimize workload and manual data entry which should decrease county office errors. Some overpayments were initially encountered; however, most of these have been resolved. FSA continues efforts to collect the remaining overpayments and will use all available tools at our disposal, including offsets of any future program payments and using the Treasury Offset Program to offset any future tax refunds or other government payments that may be due to the debtor.

CONSERVATION

Mr. Aderholt: Mr. Dolcini, regarding conservation programs, do you know how many acres in the United States are being taken out of production and put into conservation?

Response: Currently, there are 31.2 million acres enrolled in the Conservation Reserve Program (CRP), of which, 30.5 million acres are classified as cropland. This represents 7.5 percent of cropland as defined by the 2007 Census of Agriculture. In addition, the Wetlands Reserve Program currently has an enrollment of 2.3 million acres, of which, 734,000 acres are classified as cropland.

Mr. Aderholt: Since other countries like Brazil are increasing ag exports, is there any legitimacy to concerns that U.S. agriculture is taking land out of production and putting it into conservation, while other countries do the opposite?

Response: The U.S. and many other countries are increasing crop production in response to strong demand and high crop prices, particularly for corn and soybeans. In the U.S., intended plantings of the major crops are up more than 8 million acres above last year, according to USDA data collected from producers in early March. This land is from various sources, including former hay land and summer fallow. Historically, however, the U.S. has kept pace with rising food and fiber needs largely through raising productivity, not land expansion.

The voluntary CRP program enables farmers to keep productive land in use and to identify highly erodible, or other sensitive landscapes that provide greater benefit to society if conserved. Research demonstrates that CRP reduces soil erosion an estimated 325 million tons per year, reduces nitrogen runoff and leaching by an estimated 600 million pounds per year, and sequesters an estimated 51 million tons of carbon dioxide per year. In addition, CRP has increased or maintained populations of numerous at risk and economically important wildlife species. The Wetlands Reserve Program (WRP) also provides valuable wildlife habitat while improving ground and surface water quality, improving aquifer recharge, sequestering carbon, and increasing flood water retention. Flood water retention reduces flood damages and improves the productivity of lands downstream.

Brazil has abundant and cheap land; however, some of the expansion there has been environmentally detrimental, particularly due to the impact of cattle operations. As a result, Brazil has regulated to protect rain forests and other important areas. Similarly, the expansion of palm oil production in Southeast Asia has led to deforestation and destruction of peat swamp. As a result, some producers, vegetable oil manufactures, and environmental groups are attempting to combat additional environmental damage.

Mr. Aderholt: How does this position us on the competitive world market as well as trying to answer global hunger issues?

Response: Maintaining CRP and WRP enrollment should have little impact on U.S. competitiveness in the world market. Most increases in productivity are brought about by improved management, genetics, and technology. Further, farmers tend to enroll their low productivity, marginal lands in conservation programs, making the impact on crop production less than the acreage implies. CRP and WRP enable farmers to continue producing on land suited for sustainable, high yields while using marginal lands to deliver soil, water, and wildlife benefits. Planting marginal lands may result in a one-year opportunity, but at the cost of erosion and other environmental degradation that takes many years to remedy.

The U.S. continues to donate food to countries in need and to be highly competitive in world markets with agricultural exports projected to be a record $135.5 billion in fiscal year 2011. We expect to realize a record net positive agricultural trade balance of $47.5 billion, up almost $12 billion from the previous record.

Mr. Aderholt: Is a stable abundant domestic food supply not only an economic issue, but also a national security issue?

Response: Yes, an abundant food supply contributes to national security. However, keeping the most environmentally sensitive land out of annual crop production does not jeopardize our food supply. In fact, the long-term competitiveness of the U.S. agriculture depends upon the wise utilization of its arable land through implementation of sound conservation measures. Our productive farmers cover the majority of the country's critical food needs, generate exports to help feed and clothe the world, and ensure future food abundance through the adoption of sustainable land management practices and innovations.

Questions Submitted By Ms. DeLauro

FOOD FOR PEACE/MCGOVERN-DOLE

Ms. DeLauro: The budget maintains funding for the Food for Peace, PL 480, Title II program at the FY 2010 level ($1.69 billion), but trims the McGovern-Dole program from $209.5 million in 2010 to $200.5 million.

However, the House CR proposal cut Food for Peace by $687 million and McGovern-Dole by $109 million. According to some estimates, the cuts would eliminate over 15 million people from the Food for Peace Program, and an additional 2.5 million food aid recipients would be dropped from the McGovern-Dole Food for Education Program.

The importance of these programs cannot be emphasized enough. The Food for Peace program targets communities where there is persistent hunger and 30 percent or more children are under-nourished. Reductions in this program would severely limit our ability to provide assistance in response to conflicts, drought and other disasters. Reductions in the McGovern-Dole program would prevent many young girls from attending school. Given these proposed cuts, and given the fact that world food prices are increasing dramatically again, can you outline what kind of impact this would have on world hunger?

Response: The Administration is concerned about the proposed cuts in these food assistance programs. The cuts represent about 40 percent of the funding that was available to the programs in FY 2010. If the cuts are enacted, combined with continued price increases, the Administration will have fewer resources to assist in emergency food situations and improve the plight of the nearly one billion people throughout the world who suffer from chronic hunger. Further, if McGovern-Dole funding were decreased to $100 million, this program would feed more than 2 million fewer children. Moreover, it is important to note that with a focus on sustainability, the McGovern-Dole program would be compromised, and USDA would be forced to conclude a number of existing programs prior to reaching sustainability.

Ms. DeLauro: How would these cuts impact our national security efforts?

Response: Although FAS cannot address specific impacts on national security, we note the concerns of Secretary Clinton in her February letter to the House Appropriations Committee, in which she stated that cuts in the foreign operations and humanitarian assistance accounts would "be devastating to our national security" and "damage our leadership around the world."

CROP INSURANCE FRAUD

Ms. DeLauro: This week, two North Carolina farmers were sentenced for their part in a multi-million dollar crop insurance fraud scheme. As part of this ongoing federal investigation, another North Carolina farmer was charged in crop insurance fraud and, according to reports, 25 other defendants have been linked to similar scams.

Earlier this month, a California farmer was found guilty of defrauding the crop insurance program and faces 30 years in prison and a $1 million fine.

I recognize that the agreement reached with crop insurers last year would achieve $6 billion in savings, with $4 billion applied toward deficit reduction, but that does not obviate the need to be diligent in pursuing improper payment cases.

Ms. DeLauro: How would proposed budget cuts impact RMA's ability to improve quality control and reduce improper payments?

Response: Thank you for noting that RMA, in partnership with the Department of Justice and the USDA, Office of Inspector General, continues to identify and prosecute those persons who abuse the Federal crop insurance program. We would also note that RMA has staffed the additional Compliance positions funded by Congress in 2010, and those additional resources are assisting RMA in maintaining program integrity nationwide. The reductions to program outlays secured through the renegotiation of the Standard Reinsurance Agreement (SRA) will not impact RMA's successful and forward looking compliance program. The nationally recognized data mining program that is conducted in partnership with Tarleton State University and the Center for Agribusiness Excellence is funded at the same level as in past years and continues to reap significant program savings by identifying anomalous producers who are then checked during the current growing season by local Farm Service Agency employees. In addition, the new SRA contains a new protocol for the reinsured companies to also get data mining results to pursue rather than checking random policies as the latter has not returned the same level of cost-benefit RMA has identified with data mining. In addition to actively assisting with criminal cases, RMA uses the knowledge gained from those cases to continually modify policies and procedures to preclude future improper payments. The 2011 SRA contains improved company-related internal and quality controls that were designed to be more cost effective given the negotiated expense reductions. These efforts to improve the efficiency and outlook that RMA has for program compliance are evidence that reducing improper payments is a priority for the agency, and those efforts will continue under the proposed 2012 budget level for RMA.

Ms. DeLauro: While the error rate for the crop insurance is 5 percent, it still is higher than the error rate for nutrition programs. What are some of the measures that RMA will be taking to reduce the error rate?

Response: In response to Improper Payment Information Act (IPIA) review results, Appendix 4 of the renegotiated 2011 SRA includes substantial changes to the way reinsured companies will conduct their quality control programs in the future. Recognizing the need to reduce program expense outlays, RMA agreed to eliminate the random reviews previously required of the companies in exchange for reviews of policies selected by data mining to identify anomalous policyholders and increase the potential to find and correct problems. RMA believes that by targeting these anomalous policies to begin with, oversight costs will be reduced and cost-benefits will increase while reducing the crop insurance program's overall error rate.

In regards to the current observed error rate reported for IPIA, RMA continues to identify error with rates averaging around 5 percent over time. The error rate for the recently completed 2009 crop year is 3.1 percent compared to 5.4 percent and 6.3 percent for the two crop years before that. Since RMA began reviewing policies in 2003 to establish an improper payment rate, RMA has randomly reviewed 1,700 polices with an overall observed error rate of 4.7 percent, and has not found any instances of intentional misrepresentation or fraud during these reviews.

With respect to other agency error rates, it is difficult to draw comparisons as the types of errors unique to each program lack similarity. A crop insurance indemnity payment has multiple decision points dependent on: 1) the producer to correctly certify the farming operation to establish liability; 2) the agent to provide proper advice and guidance on various policy provisions and procedures; 3) the loss adjuster to verify the indemnity; and 4) the company to correctly compute and transmit all insurance information to RMA. Considering the complexity of the crop insurance programs a 5% error rate is not unreasonable. Even so, RMA continually looks to improve procedural controls and technology to reduce program error rates.

FARM SERVICE AGENCY - CUTS IN H.R. 1

Ms. DeLauro: The Farm Service Agency is located in over 2,200 county offices and 50 State offices, and administers a very large number of mandatory and discretionary programs that benefit local farmers. If the proposed cuts in H.R. 1 become law, how many FSA employees would have to be furloughed and for how long?

Response: If H.R. 1 became law today, FSA would have to furlough all full-time employees for 22 days. This is the maximum amount of days covered under furlough procedures before a Reduction in Force (RIF) would have to be implemented. If a RIF is required, the reductions will be severe. This late in the fiscal year, a RIF produces very little savings; therefore, the reductions would have to be much larger than if properly managed early in the fiscal year.

Ms. DeLauro: How many local county offices would close? All of them? If these offices are closed, where would farmers go for information about their payments, loans or disaster assistance?

Response: If cuts similar to those envisioned by H.R. 1 are imposed, the agency would stagger the furloughs throughout the remainder of the fiscal year. This would allow us to minimize the potential for office closures and any adverse impact to America's farmers and ranchers.

Ms. DeLauro: Would the cuts result in delays in processing payments and loans?

Response: Yes, the cuts would likely delay payments and loan processing. We would mitigate this to the extent possible by staggering the furlough so that in most offices minimal staff would continue working Monday through Friday.

FOREIGN AGRICULTURAL SERVICE - CUTS IN H.R. 1

Ms. DeLauro: The Foreign Agriculture Service is located at nearly 100 overseas offices and whose major mission is to facilitate the export of U.S. agriculture products. The 2011 budget proposed a $54 million increase for export promotion activities as part of the administration's National Export Initiative. It also included $14.6 million for reconstruction and stabilization work in Afghanistan, Pakistan, Iraq and Haiti. If the proposed cuts in H.R. 1 become law, how many employees would have to be furloughed and for how long?

Response: Under the proposed cuts in H.R. 1, FAS would have to furlough all non-essential personnel for potentially 10 to 20 days.

Ms. DeLauro: Would it lead to closure of some overseas offices?

Response: Based on H.R. 1, FAS would need to close between 10 and 20 FAS posts overseas, depending on the size of the shortfall. This would mean a reduction of at least 10 American officers and the elimination of close to 40 foreign staff positions. Our market promotion activities, which are critical to the National Export Initiative, would be reduced dramatically. The elimination of foreign staff positions would have a significant impact on our ability to provide advice to exporters since some of our foreign national staff have upwards of 20 years experience in a market. The loss of this expertise would be significant on many fronts and would limit our ability to collect market information or report on food prices and food availability.

Ms. DeLauro: How would the cuts impact the agricultural reconstruction and stabilization work in Afghanistan, Pakistan, Iraq, and Haiti?

Response: Under the proposed H.R. 1, there may be no additional funding provided by USDA Departmental Management to fully fund our $13 million operating plan for Provincial Reconstruction Team (PRT) support beyond the amount provided to date under the last continuing resolution. If this happens, FAS might find it difficult to support this activity and would be required to consider bringing home PRT members funded from this source and returning them to their respective agencies. Additionally, Schedule B staff funded from this source might have to be released. Currently there are 35 employees who have all or a portion of their salaries being paid from this source. Twenty of these employees are Schedule B.

IMPROPER FARM PAYMENTS

Ms. DeLauro: Earlier this month, the GAO released an extensive report that outlined opportunities for the government to reduce duplication, save tax dollars, and enhance revenue. The report noted that taxpayer dollars can be saved with strengthened oversight of farm program payments, including direct payments.

As you know, GAO reported in October 2008 that USDA provided farm program payments to thousands of individuals with incomes exceeding income eligibility caps. Some of the examples that GAO listed included:

- A founder and former executive of an insurance company received more than $300,000 in farm program payments in a four year period (2003 - 2006) that should have been subject to the income limits.
- An individual with ownership interest in a professional sports franchise received more than $200,000 in payments that should have been barred by the income limits.

There were a number of other examples that were listed in the report.

The GAO report concluded that reducing or eliminating direct payments to farmers, particularly those to large farming operations, could achieve cost savings of approximately $5 billion per year. This would represent significant savings for the taxpayer.

What are some of the actions that FSA has taken to reduce the error rate for farm payments?

Response: FSA works with the Internal Revenue Service (IRS) to verify producer compliance with the Adjusted Gross Income (AGI) limits. This was implemented nearly a year ago and will be ongoing. No taxpayer information is exchanged between USDA and IRS during this process. Rather, USDA sends to the IRS a list of program applicants who have certified that they meet the AGI criteria to participate in our programs. The IRS reviews data from tax returns, performs calculations, and compares these values to the AGI limits. FSA receives a record back from the IRS indicating whether or not the program participant appears to meet the income limits. For those who appear noncompliant, FSA performs additional income verification prior to making a final determination. This process was implemented in response to the GAO audit report and 2008 Farm Bill requirements.

In addition, FSA has established a relationship with the Social Security Administration (SSA) to receive their "Master Death File." This list is cross-checked four times each year to identify producers who have passed away after signing up to participate in FSA programs. In a previous audit by the GAO, concerns were raised about improper payments to deceased individuals. In virtually all cases the payment amount was correct; however, paperwork was not present in the producer's files to document that the producer was deceased and that payments should be made to the estate. This relationship with SSA helps to ensure that payments are properly recorded as being made to the estate rather than the deceased individual.

Furthermore, FSA does annual improper payment audits to identify patterns that may suggest that additional guidance is needed in county offices to lower improper payment rates.

Ms. DeLauro: If and when FSA is able to achieve a stable IT infrastructure, would it be able to help reduce erroneous farmer payments?

Response: Yes. Improved business processes, consistent payment processes, and data management should assist FSA to continue to reduce improper payment amounts.

WOMEN FARMERS

Ms. DeLauro: Last month, USDA and DOJ announced the establishment of a process that would resolve the claims of women and Hispanic farmers alleging discrimination by USDA when seeking farm loans.

When the Secretary testified earlier this month, I discussed this issue briefly with him. While the USDA has undertaken a process that would resolve the claims of women and Hispanic farmers who have alleged discrimination by USDA, the department has not indicated how it would undertake reforms that would avoid a reoccurrence. As you know, much of the discrimination that these farmers encountered took place at their local FSA offices.

How does USDA intend to reform the culture at FSA so that discriminatory practices come to an end and all farmers receive equal treatment?

Response: Since USDA's initial Civil Rights Action Team report was released in 1997, FSA has made a concerted effort to change its culture to ensure that its programs and services are delivered fairly and equitably to all customers. County committees have been removed from the loan process, and State Executive Directors are required to monitor denial of applications from socially disadvantaged applicants and selectively review denied applications to assure the decision was appropriate. The agency has also established a review process prior to initiating foreclosure to assure that all borrowers have been accorded their servicing rights. One indicator of the success of these efforts is that in FY 2010, FSA received only 37 civil rights complaints related to farm loan programs. This represents the fewest number of complaints of any agency in USDA in FY 2010. Although these changes have been effective, our efforts continue. For example, in December, 2010, FSA held a Cultural Transformation session for its senior leadership, including all State Executive Directors, Farm Loan Chiefs, and the Farm Loan Programs management team from headquarters. FSA supports Cultural Transformation efforts initiated by Secretary Vilsack and is working to improve diversity, inclusion, and performance. Cultural Transformation will also be a primary component of FSA's FYs 2012 - 2016 Strategic Plan and Operational Plan. FSA is confident that its transformation initiatives, coupled with the improvements already in place, will result in the fair and equitable treatment of all customers.

DIRECT CONSERVATION LOAN PROGRAM

Ms. DeLauro: The President's FY12 budget request proposes to zero out direct conservation loans, providing funding only for guaranteed conservation loans. The Administration requested funding for both the direct and guaranteed programs each of the past two fiscal years, and Congress was able to fund those programs at the requested level.

However, I am concerned with the proposal to zero out the direct conservation loan funding. These direct loans are used primarily by beginning, socially disadvantaged, and limited resource farmers who cannot secure loans from commercial lenders. In fact, the farm bill creates a conservation loan program priority for beginning and socially disadvantaged farmers. It would seem that zeroing out the direct loans would skew the program toward larger loans to larger operations and away from serving those with the most difficult time securing credit to begin with. Has the Department done any analysis of how it would fulfill this priority mission contained in the Farm Bill if it did not have direct conservation loan funds?

Response: Conservation projects are eligible for funding through the direct Farm Ownership (FO) and Farm Operating (OL) loan programs. Portions of funding allotments for these programs, like conservation loan funds, are targeted to beginning farmers and socially disadvantaged farmers. Farmers, including beginning and socially disadvantaged farmers, who could not obtain financing through guaranteed conservation loans, would still be able to fund conservation projects through the direct FO and OL programs.
Ms. DeLauro: Do you have an analysis of which categories of borrowers would and would not get funded with a single guaranteed loan option?

We do not have a formal analysis. However, small, beginning, and minority farmers would likely not be able to obtain guaranteed conservation loans. They would be least likely to qualify for a loan from a commercial lender with only the 75 percent guarantee offered through the conservation loan program. However, these farmers would be able to access direct ownership and operating loan programs and use the loan funds for conservation purposes.

Ms. DeLauro: What is the justification for having both the direct and guaranteed loan options for farm operating loans and farm ownership loans, but having only one option for conservation loans?

Response: The Administration is committed to cutting spending and reducing the deficit so that current government spending does not add to the debt. The fiscal year 2012 guaranteed subsidy rate is negative, so all funds are proposed to be moved from the direct to the guaranteed program to make the most efficient use of these resources. The direct and guaranteed conservation loan programs are targeted to the same borrowers, so this shift to guaranteed conservation loans will still encourage implementation of conservation practices while targeting budget resources to the programs that assist producers which do not have a commercial financing option available.

Questions Submitted by Ms. Kaptur

FARM SERVICE AGENCY

NON-TRADITIONAL FARMERS

Ms. Kaptur: The Farm Service Agency has some of the broadest authorities for farmers in non rural areas and legally, does not include a population restriction on FSA's activities in these communities. How does FSA use their extensive infrastructure to engage non traditional farmers. The farm loan programs offer great promise for these communities and would like your technical assistance in developing new structures to accelerate this type of activity. What other types of FSA activities should we be considering as we try to rebuild the food webs of regions and use high value agriculture as an economic generator for abandoned communities?

Response: As you mentioned, FSA does have broad authorities for lending for agricultural production regardless of whether the farm is inside city limits or in an urban or suburban area. At this time, the most important activities for reaching non-traditional farmers are those that provide information on FSA programs and other programs that can provide support for farm enterprises in these areas. FSA engages non-traditional farmers through a variety of ways: the Farm Loan Program (FLP) Marketing initiative that kicked off in FY 2008, through participation in USDA's Know Your Farmer, Know Your Food; direct conversations at organized meetings, whether set up by the producers or by FSA; Public Service Announcements on the radio in multiple languages if the area farmers live in have limited English proficiency; attending sponsored trade shows and conferences; and provided sufficient funding is available, FSA may assist in sponsoring some outreach events in order to assure successful events for reaching non-traditional farmers.

Ms. Kaptur: Has USDA considered holding training sessions for their front line staff to highlight the flexibilities in their programs?

Response: FSA has conducted training sessions and other means to emphasize program flexibilities to finance urban agriculture. For the past three years, the FLP annual policy meeting with all State Executive Directors and Farm Loan Chiefs has included sessions on financing urban, niche, and value-added farm enterprises with FSA farm loans. FSA initiated a loan program marketing campaign in 2008, which emphasizes reaching non-traditional operators and others who might be unaware of FSA programs. As a result, many FSA program managers at the state level are pursuing unique opportunities. For example, the FSA Michigan State Office has collaborated with the C.S. Mott Foundation to create a continuing education event for FSA loan officials covering the organic certification process and organic production issues. In addition, FSA conducts annual training via AgLearn to remind all employees of the fairness required when implementing programs for a diverse farm and ranch population.

Ms. Kaptur: What activities has USDA taken to cooperate with nontraditional farmer organizations to better utilize your diverse programs?

Response: Each FSA State Office conducts local outreach and promotion of FSA's loan and commodity programs. FSA has formed partnerships from coast to coast, including working with Association of Africans Living in Vermont, to provide loan assistance to the refugees; farmer education through the Minnesota Food Association; and supporting California's Farmer-Veteran Coalition and California Landlink, which matches retiring farmers with new and beginning farmers. Nationally, FSA entered into an agreement with the Native American Community Development Corporation to help make loan and program information and technical assistance more readily available in Tribal communities.

VALUE-ADDED AGRICULTURE

Ms.Kaptur: In terms of high value and non rural agriculture, have FSA offices and staff been trained in the opportunities related to value- added agriculture?

Response: Yes, FSA has provided staff with training in use of farm loan programs to assist urban, niche, and value-added farm enterprises. FSA's loan officials are also familiar with value-added agriculture, Rural Development's value added grant program, and various state-funded programs that may be available to assist applicants and borrowers. The agency is also developing a data network for loan officials to provide them with information essential to understand and analyze unique and non-traditional farm business proposals and provide guidance to prospective applicants and borrowers. In addition, many of the FSA staff are devoting personal time to the First Lady's and Secretary Vilsack's efforts to expand the traditional food production concept. We are encouraging cost-saving and quality production in very limited growing space. The People's Garden project has garnered widespread attention and drawn many trained agriculture-trained staff into urban areas where they are teaching fundamental ways for growing food. Several FSA staff in Washington, D.C., and throughout the nation volunteer their time to learn teaching techniques and go into urban areas to demonstrate non-traditional growing methods.

Ms.Kaptur: To what extent does FSA coordinate with AMS with the Know Your Farmer Know Your Food Program or other innovative value added or small farmer outreach programs?

Response: Representatives from FSA are on the Know Your Farmer, Know Your Food task force and have worked with AMS to incorporate information about farm loan programs into Know Your Farmer, Know Your Food and other outreach and communication efforts to promote locally grown food and related opportunities. USDA is working to get the word out about these programs, particularly to constituencies who may not already be aware of these programs. For example, on June 17, 2010, Deputy Secretary Kathleen Merrigan released a memo highlighting FSA programs that can support local and regional food systems. Locally, Farm Service Agency staff work closely with the other members of their State Food and Agriculture Councils, especially the Natural Resources Conservation Service and Rural Development agencies, to provide support and technical assistance to farmers and ranchers in their community. Employees throughout FSA's 2,240 county and state offices have joined in the effort to help all consumers understand where their food comes from and how it is cared for, processed and made to be the best and safest food supply in the world.

COOPERATIVE PROGRAMS

Ms.Kaptur: With thousands of FSA offices across the country, FSA has the footprint across rural America. While other agencies have the innovation, training a country of these staff is critical in helping promote a new generation of farmers. As the administration has recognized, the size of farms is getting larger and the age of these farmers is increasing. It is in the hands of FSA to promote a new generation of farmers and to ensure that your programs are used not to enrich well off farmers but to assist the next generation. What types of cooperative programs has FSA built with extension to train new farmers in accessing FSA programs?

Response: One of the important alliances FSA builds through its network of county offices is with Future Farmers of America, 4-H and similar youth organizations with whom we share information that we hope encourages them to enter the profession. FSA works closely with Extension Service offices and agents to assist loan applicants and borrowers. In fact, the Extension Service is one of the largest borrower training resources used by FSA to provide technical assistance to beginning farmer borrowers. Loan officers routinely refer beginning farmers to local extension agents for assistance with critical production and management problems, recordkeeping, financial management, etc. In addition, in many states, FSA and Extension work together with state operated "Farm-Link" programs that match retiring farmers with beginning farmers who are looking for a farming opportunity.

NEW FARMER OR URBAN FARMER OUTREACH

Ms.Kaptur: Does USDA have any innovative models for new farmer or urban farmer outreach?

Response: USDA is innovating in outreach to beginning farmers and in providing tools to support their development. In December, 2010, USDA launched "TipNet", an online tool to help implement FSA's Transition Incentives Program." FSA's TipNet links retiring farmers who have expiring Conservation Reserve Program contracts with beginning farmers or ranchers who are interested in bringing their land into production. Another initiative is the proposed Individual Development Account program, authorized in the 2008 Farm Bill. This program would provide matching funds to assist new farmers in building a modest amount of capital for their fledgling operations. FSA promotes farm loan programs with the aid of a short video with real stories of how farm loan programs have helped beginning farmers; the video is also available on-line and is used extensively by field staff in marketing events.

NON-RURAL COMMUNITIES

Ms.Kaptur: Unlike rural development, there are NO restrictions against FSA loans or programs in urban areas yet, in these places, FSA means nothing. What is USDA doing to promote itself in non rural communities where FSA has traditionally been absent? Agriculture represents an important economic opportunity as communities like Toledo and Detroit reinvent themselves and FSA must serve an important role in this transformation.

Response: FSA has developed loan program information which is available on the Know Your Farmer, Know Your Food website. Outreach in New York State has resulted in loan applications from urban enterprises, including a market garden on the roof of a skyscraper in New York City. Several FSA county offices near urban centers have initiated People's Garden projects in lower income neighborhoods. They are helping city parks programs identify suitable ground where shared gardens can be established. They are offering classes to apartment dwellers to learn how to grow basic vegetables such as tomatoes, peppers and cucumbers with small pots of soil. They are showing that a head of lettuce or cabbage rather than annual shrubbery can be colorful and inviting and edible. There are many ways the People's Garden is educating urban citizens about food production and cost savings.

FSA COUNTY OFFICES

Ms Kaptur: In FY 2010, the Farm Service Agency spent $60 million dollars from salaries and expenses supporting 150 full time staff equivalents in the State of Iowa, more than double the program size in Ohio. Of all the states in the union, Iowa ranks second in the union for the dollars spent by the Farm Service Agency, second only to Texas, a state with more land, people, counties and ag production. Is this fair? Why does Iowa receive so much more FSA support?

Response: Iowa is a large agricultural state with approximately ninety-two percent of the land being devoted to agriculture. Iowa is one of the nation's leaders in the percentage of land utilized for agriculture. The main agricultural products are: corn, soybeans, hogs, and cattle. Iowa ranks among the leading states in the production of the first three commodities noted above. Additionally, Iowa is one of the nation's largest producers of ethanol.

Iowa administers FSA farm programs and farm loan programs through the 100 FSA county offices and the state office located in Des Moines. These offices are staffed with approximately 550 permanent non-Federal employees and 150 Federal employees.

Given the agricultural economy, percentage of farmland, and participation in FSA's conservation, commodity, and loan programs, Iowa's share of the administrative funding is commensurate with other states of similar agricultural size.

Ms.Kaptur: For the record, please provide for the committee the number of FSA offices and employees housed in those offices for congressional districts represented by members of the House Agriculture Appropriations Subcommittee.

Response: The information is submitted for the record.

[The information follows:]

House Agriculture Appropriations Subcommittee Member and Congressional District	Number of FSA Offices in the Member's District	Number of FSA Employees in the FSA Offices within the Members District a/
Rosa Delauro, Connecticut 3rd Congressional District	1	3
Sam Farr, California 17th Congressional District	2	9
Tom Graves, Georgia 9th Congressional District	4	15
Marcy Kaptur, Ohio 9th Congressional District	4	25
Robert Alderholt, Alabama 4th Congressional	8	30

District		
Jack Kingston, Georgia 1st Congressional District	11	52
Cynthia Lummis, Wyoming At-large Congressional District	18 b/	79
Jo Ann Emerson, Missouri 8th Congressional District	19	96
Alan Nunnelee, Mississippi 1st Congressional District	22	81
Sanford Bishop, Georgia 2nd Congressional District	22	115
Tom Latham, Iowa 4th Congressional District	28	220

a/ Reflects FSA Federal and County office permanent and temporary employees in the offices as of March, 2011.

b/ Reflects 1 State FSA office and 17 County FSA offices.

FOREIGN AGRICULTURE SERVICE

GLOBAL AGRICULTURAL DEVELOPMENT

Ms. Kaptur: In previous years the Government Accountability Office has testified before this subcommittee and indicated that a lack of expertise in agriculture is hampering our efforts to promote global agricultural development. While the FAS role is primarily in market promotion, are there opportunities to use USDA expertise in this international arena?

Response: Working collaboratively with the U.S. Agency for International Development (USAID), FAS has long been a strong partner in the delivery of agriculture-related technical assistance and trade capacity building activities worldwide. The FAS and USAID partnership also extends to food aid, as both agencies routinely collaborate on all matters related to the delivery of food assistance around the world. Under the Administration's Feed the Future Initiative, USDA is committed to ensuring that the expertise of the Department is made available to the U.S. Government's efforts to seek long-term solutions for global food insecurity.

Ms. Kaptur: Does FAS have any plans to better incorporate their agricultural expertise into the development activities abroad or is FAS only concerned with market promotion?

Response: Although the primary mission of the Foreign Agricultural Service is focused on agricultural export promotion, FAS is also charged with leading USDA's efforts to provide agricultural technical assistance and training to developing countries. FAS' attachés and counselors serving abroad are the Department's eyes and ears in identifying opportunities for deploying USDA's agricultural expertise. USDA, through its funding and programmatic partnership with USAID and the Department of State, is providing additional resources and technical expertise to respond to the growing need for global development assistance.

Ms. Kaptur: The FY 2010 local and regional food aid procurement pilot project has allocated $2.6 million in Bangladesh, $1.3 million in Benin, $1,0 million in Burkina Faso and so on. This pilot program has been a much watched proposal, however, the close coalition between domestic agriculture and the international food aid community is concerned that displacing American products with internationally procured food will diminish American desire to support these programs. Small regionally procured programs do not jeopardize domestic support, yet, if the size grows, the dynamic changes. Please walk the committee through the program and whether its implementation jeopardizes domestic support from farmers supporting international food aid?

Response: The foundation of USDA international food assistance programs continues to be in-kind food aid. In-kind food aid is suited well to meet chronic food needs during non-emergencies. However, the availability of local and regional procurement serves as an additional tool to expedite the delivery of food aid to populations affected by food crises and disasters in emergency situations. In addition, funding for local and regional procurement to support development activities during non-emergencies, can help promote market linkages, and create opportunities for U.S. agribusinesses in developing countries.

Under the USDA Local and Regional Procurement Pilot Project, USDA has established a new standard within the food assistance community with regard to monitoring the impacts of local and regional procurements to ensure they do not cause negative market distortions. The adherence to the principle of not harming source markets for locally and regionally purchased commodities inherently limits the size and scope to which the local and regional procurement methodology can be implemented without causing negative impacts. Given this constraint, and the current sizable scale of U.S. in-kind food aid, it is highly unlikely that the local and regional procurement of food aid will ever result in a significant displacement of in-kind food aid.

TECHNICAL ASSISTANCE AND AGRICULTURAL RESEARCH

Ms. Kaptur: Currently I am working with a group that is trying to organize a technical exchange program between the Jordanian/ Palestinian and

Israeli agricultural communities. Bridging the gaps between these different communities is crucial; peace can be achieved by building a viable economic future of interdependence between these peoples. Can USDA assist with this program?

Response: The Department of State funds USDA's Foreign Agricultural Service and Agricultural Research Service ongoing work with Jordan, Israel, and the Palestinian Authority on technical assistance and agricultural research, primarily in the area of water resource management. The purpose of these programs is to provide opportunity for communities to work together in a non-political environment on issues of mutual benefit.

Ms. Kaptur: The US Department of State has begun the process of assisting us. What resources can FAS bring to bear to assist in this program?

Response: USDA receives funds from Department of State to provide technical assistance to these countries/territories. Based on availability of funds, USDA could expand upon its current areas of engagement. This could include technical skills training, workshops, or seminars in areas including forestry or natural resources management or agricultural extension. USDA has hosted 27 Cochran Fellows from Jordan since 2003.

Ms. Kaptur: We need USDA to take action today. It is now almost April, when farmers plan for spring planting and need to know how they can secure operating capital. How we address this downturn will not only determine their success in 2010, but will also set in place the tools and mechanisms available to USDA and other agencies to address future economic crises. If properly executed, USDA can also set a better foundation for the success of initiative like Know Your Farmer, Know Your Food.

SUPPLEMENTAL REVENUE ASSISTANCE PROGRAM (SURE)

Ms.Kaptur: The 2008 Farm Bill included permanent disaster programs designed to provide emergency assistance for extreme losses in specialty crops, program crops, and livestock. Permanent disaster programs were intended to replace the inefficient, costly and time-consuming ad hoc disaster packages that Congress would pass to respond to agriculture crises nearly every year. The inclusion of permanent disaster programs in the 2008 Farm Bill was a victory for family farmers and ranchers. Unfortunately, the Supplemental Revenue Assistance Program (SURE) and other disaster assistance efforts were underfunded and their baseline will expire at the end of 2011. What would the budget impact have been if permanent disaster programs had been fully funded for the duration of the 2008 Farm Bill?

Response: The permanent disaster programs under the 2008 Farm Bill include the Supplemental Revenue Assistance Payments (SURE) program, Livestock Indemnity Program (LIP), Livestock Forage Disaster Program (LFP), Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP), and Tree Assistance Program (TAP) that cover losses that occur on or before September 30, 2011. The cost estimate for extending coverage through fiscal year 2012 is $1.2 billion.

DISASTER PROGRAMS

Ms. Kaptur: Additionally, how much was spent on ad hoc disaster packages in the ten years prior to the 2008 Farm Bill as well as any other additional disaster legislation passed since 2008?

Response: The information is submitted for the record.

[The information follows:]

Farm Service Agency (FSA)\Commodity Credit Corporation
Program Costs for Ad-Hoc Agricultural Disaster Assistance Programs
($ in thousands)

FISCAL YEAR	CROP DISASTER ASSISTANCE a/	LIVESTOCK ASSISTANCE PROGRAM	LIVESTOCK INDEMNITY PROGRAM	DAIRY PRODUCTION ASSISTANCE	AMERICAN INDIAN LIVESTOCK	FLOOD COMPENSATION PROGRAM	PASTURE RECOVERY PROGRAM	CCC TREE ASSISTANCE PROGRAM	FSA TREE ASSISTANCE PROGRAM	TOTAL DISASTER PAYMENTS	EMERGENCY CONSERVATION PROGRAM PAYMENTS b/
1998	-$1,868	0	$4,837	0	0	0	0	$144	$2,796	$5,909	$28,503
1999	1,913,183	$269,513	3,997	$9,030	$3,896	$40,915	0	17	6,643	2,247,194	39,342
2000	1,233,350	188,105	4,931	-11	6,874	669	$17,959	0	2,028	1,453,905	65,681
2001	1,848,394	427,407	171	0	5,999	20,367	23,949	0	546	2,326,833	41,198
2002	230,416	-187	3,140	0	2,186	54	12,235	-107	-10	247,727	32,358
2003	1,867,464	251,300	32	0	1	0	-18	28	0	2,118,807	27,421
2004	804,343	130,060	258	0	0	0	-1	1,769	0	936,429	26,745
2005	2,395,405	69,807	-3	0	456	0	0	2,952	743	2,469,360	85,277
2006	177,512	193,670	-3	0	7,202	0	0	4,372	550	383,303	107,921
2007	58,591	664	198	0	0	0	0	1,973	0	61,426	39,270
2008	1,281	25	0	0	2	0	0	1,010	0	2,318	35,476
2009	114	32	0	0	0	0	0	68	0	214	153,044
2010	-1,082	-79	-81	0	0	0	0	90	0	-1,152	92,502
TOTAL FY 1998-2010	$10,527,103	$1,530,317	$17,477	$9,019	$26,616	$62,005	$54,124	$12,316	$13,296	$12,252,273	$774,738

a/ Includes cash payments and commodity certificates, based on face value on issuance day
b/ Obligation basis

USDA FY 2008-FY 2010 Actual FSA Disaster Assistance (P L 110-28)
Account 12X2701
($ in thousands)

FISCAL YEAR	CROP DISASTER ASSISTANCE	LIVESTOCK COMPENSATION	CATFISH GRANTS	DAIRY DISASTER ASSISTANCE	LIVESTOCK INDEMNITY	Total
2008	$1,909,619	$336,530	$19,158	$12,372	$38,064	$2,315,743
2009	114,563	1,871	23	151	1,692	118,300
2010	973	-324	0	0	686	1,335
Total FY 2008-2010	$2,025,155	$338,077	$19,181	$12,523	$40,442	$2,435,378

FARM PROGRAM PAYMENTS

Ms.Kaptur: The Administration has waded in to a debate about AG limits for farm bill programs at a time when the country is digging deep into our pockets to balance the budget. There is a seeming agreement from USDA that farm programs for very large producers should also be on the table. Your numbers on the limit of $30,000 in direct payments and a maximum AGI limit of $500,000 are a first step in this conversation. How did you arrive at the numbers you did? Do you think that farmers with income of $300,000 or $400,000, or double that for a married couple, need a government subsidy of $30,000 every single year regardless of market conditions?

Response: During his campaign, President Obama made a pledge to reduce farm program payments going to wealthy individuals. Each year since taking office, this Administration has submitted a budget request to Congress that would do just that. Our proposal in the fiscal year 2012 President's Budget is to reduce the Direct Payment limit to $30,000 (from $40,000 currently) and the farm and non-farm adjusted gross income (AGI) payment eligibility criteria to $500,000 and $250,000, respectively, over a 3-year period, starting with the 2012 crop. The current farm and non-farm AGI's are set at $750,000 and $500,000, respectfully. These three changes are projected to save $2.5 billion over 10 years.

While these changes would require a change in existing statutory authority, we believe they preserve the basic structure of the current Farm Bill, so that more substantial changes about the future of agricultural policy can be debated in the context of the upcoming Farm Bill deliberations. We are willing to work with the Congress to consider these and other options to reduce the deficit while still protecting the safety net for at-risk, socially disadvantaged, and smaller farming operations.

FARM BILL PROGRAMS

Ms.Kaptur: We have heard many times over the last weeks and months that any changes to mandatory farm subsidy programs should be made in the context of the next farm bill and not as part of an annual appropriations process. Yet year after year since the 2002 farm bill, this committee and the Congress have reduced mandatory spending for conservation programs and appropriated less than was supposedly guaranteed by the farm bill, while Title I subsidy programs have always been spared. Your administration, itself, has proposed in each of its budget proposals to reduce conservation spending below authorized levels, though you have endorsed various cuts to commodity programs as well. How would you respond to those who say now is not the time to make changes to mandatory farm programs?

Response: With the difficult budget decisions faced by this committee and the commitment to shared sacrifice made by President Obama, it would be disingenuous to suggest that mandatory farm programs should be taken off the table. However, a distinction should be made between simply cutting the mandatory farm programs to hit a target and making reductions in a way that preserves the farm safety net for our future generations of farmers and ranchers. As you note, this Administration has proposed reductions to mandatory farm programs, but it has done so in a way that preserves the basic structure of the Farm Bill so that the future direction of farm policy can be debated in the appropriate committees.

Ms.Kaptur: Mr. Dolcini, I believe transparency is extremely important when it comes to government spending. There have been media accounts that FSA has taken advantage of flexibility included in the 2008 farm bill in order to stop compiling information on farm subsidy recipients because the agency does not have adequate funding to do so. Is the agency collecting information on subsidy recipients, including attributing payments all the way to individuals?

Response: The 2008 Farm Bill required that the Title I payments be directly attributed to an individual and FSA has worked diligently to ensure that the software developed for Title I programs does that attribution. Title II of the 2008 Farm Bill does not contain the same direct attribution language so programs that did not have to be modified do not necessarily have that capability. Section 1609 of the 2008 Farm Bill states that the Secretary may track the benefits provided, directly or indirectly, to individuals and entities under Titles I and II. Because Title I and Title II have different requirements, new processes must be developed in order to link all payments to an individual and to ensure that Section 1609 is implemented in a way that will protect sensitive customer data. FSA has focused its scarce resources on implementing the mandatory requirements of the farm bill programs and has not spent the resources to meet the discretionary data dissemination provisions.

Ms. Kaptur: Did the agency have additional funding in the past to be able to compile this data and make it available to the public?

Response: The 2008 Farm Bill contained a number of highly complex programs such as the Average Crop Revenue Election (ACRE) program and the Supplemental Revenue Assistance (SURE) program. While the Farm Bill provided $50 million for the administrative costs to implement the provisions of the Act, FSA has found it necessary to use annual appropriations to provide for implementation costs such as software development, training, and other costs. As it is, funding limitations mean that the delivery of some 2008 Farm Bill programs, such as SURE, have not been fully automated and are still reliant on Excel spreadsheets and other manual processes.

Ms. Kaptur: Does the agency need additional funding to do this, or should Congress specify that a certain portion of administering the subsidy programs be set aside for data collection and dissemination to the public?

Response: Additional funding is necessary for a broad range of FSA IT initiatives including data collection and dissemination. As you know, FSA relies upon one of the oldest IT infrastructures in the Federal Government. The existing systems were largely put into place in the mid 1980's. Replacement hardware is becoming scarce, software development costs are rising, and data resides in disassociated databases making data dissemination efforts even more difficult and costly. Ultimately, our ongoing IT modernization initiative, such as MIDAS, will help to reduce the costs associated with data collection and dissemination. However, at current funding levels, MIDAS is several years away from deployment.

STANDARD REINSURANCE AGREEMENT

Ms. Kaptur: Mr. Murphy, we hear time and again that the agriculture section of the budget has already given its fair share of budget cuts because of changes to the crop insurance program in the 2008 farm bill and because of the renegotiation of the Standard Reinsurance Agreement between your administration and the private crop insurance agencies. Could you explain a little bit more about these changes to the insurance program - particularly how they did not impact farmers, but rather were an effort to rein in runaway insurance company reimbursements?

Response: Yes. Two of RMA's objectives in renegotiating the Standard Reinsurance Agreement (SRA) were to (1) align Administrative and Operating (A&O) subsidy payments closer to actual delivery costs; and (2) provide a reasonable rate of return to the companies. In recent years, companies have received significant increases in A&O payments. For example, between 2006 and 2008, A&O payments to companies had more than doubled, from $835 million to over $2 billion. Almost all of this increase was due to rising commodity prices; however, simultaneously the number of policies in force had actually decreased. The new SRA removes the potential for extreme windfall profits by establishing an overall maximum total of A&O expenditures; however, it also provides companies protection in event that commodity prices fall.

Second, RMA sought to provide a reasonable rate of return to the companies. The companies' primary source of profit (return) in the federal crop insurance program is underwriting gains, which are largely determined by the reinsurance (risk sharing arrangement) in the SRA. Underwriting gains have increased significantly in recent years - specifically, from $822 million in 2006 to $2.2 billion in 2009, a 260 percent increase. In evaluating industry profitability, RMA contracted with a private consulting firm, Milliman, Inc. Milliman undertook two studies which RMA used in the SRA renegotiation - a "reasonable" rate of return and a "historical" rate of return. The reasonable rate of return study derives the annual rate of return that the companies should be expected to earn given the industry cost of capital. The reasonable rate of return thus provides a "benchmark" against which actual company returns can be compared. The historical rate of return calculates actual rates of return of the last 20 years, expressed in terms that can be directly compared to the reasonable rate of return. The Milliman analysis indicated that, over the last 21 years, the reasonable rate of return averaged 12.7 percent, while the historical rate of return averaged 17.0 percent. From 2006 to 2009, the industry rate of return increased from 20.9 percent to 26.4 percent, respectively. RMA thus renegotiated the risk sharing terms of the SRA to allow the companies a reasonable rate of return (approximately 12-13 percent) based on these studies.

Last, the cuts in the SRA do not affect farmers. For instance, by law premium rates must be actuarially sound and are thus not affected by the SRA. Moreover, the premium subsidy that the Government pays on behalf of the farmer is not affected. Also, the SRA establishes the Net Book Quota Share (NBQS) of 6.5 percent. This is the proportion of a company's overall gain or loss that is ceded to the Government after all other reinsurance provisions have been applied. However, 1.5 percent of any underwriting gain will be distributed back to those companies who sell and service policyholders in the 17 "underserved/less served" States, according to the premium generated in those States. This provision will provide a strong financial incentive for companies to foster enhanced service in these areas.

Ms. Kaptur: Do you think these cuts/changes were needed?

Response: Yes. In recent years, companies have seen record "windfall" payments in both A&O subsidy and underwriting gains. In fact, between 2006 & 2009 total A&O subsidy and companies' underwriting gains combined more than doubled - from $1.8 billion to $3.8 billion - and at a time when the number of policies serviced has actually declined. These increasing expenditures have posed serious concerns that the program's operation has recently come at an unsustainable price for taxpayers. A new SRA was necessary to restructure these expenditures so that the potential for such significant "windfall" increases was mitigated, while ensuring that farmers and ranchers continue to get the service they deserve and that companies earn a reasonable rate of return for selling and servicing federal crop insurance.

Ms. Kaptur: Do you think they went far enough?

Response: The final SRA savings of $6 billion was arrived at through a negotiation process where the final amount was a compromise on both sides. The Administration's first SRA proposal saved $8 billion over 10 years, an addition $2 billion in savings over the final agreement. Beyond savings from the SRA negotiations, the 2012 Budget includes an additional $1.7 billion over 10 years from a proposal to reduce the premium charged for catastrophic coverage. The Administration is always seeking out ways to improve the efficiency of the crop insurance program and will continue to look for them.

Ms. Kaptur: Do you think they constitute the full extent of what the agriculture budget should bear in terms of deficit reduction?

Response: The projected $6 billion cuts in spending over ten years resulting from the renegotiated SRA make a significant contribution to deficit reduction in the overall agriculture budget.

Ms. Kaptur: What was the budget impact of the standard crop insurance renegotiation process and what affect did that have on the ability of farmers to get insurance?

Response: The SRA renegotiation is projected to result in total savings of $6 billion over ten years. Of this amount, $4 billion will be used for deficit reduction while $2 billion will be allocated to Farm Bill programs. This reduction will have no impact on the ability of farmers to get insurance. Companies selling federal crop insurance will still be required to provide insurance to all farmers wishing to purchase it in the States in which they write, premium rates will remain actuarially sound as mandated by law, and the premium subsidy percentages paid by the Government on farmers' behalf will remain the same as set forth by law.

CROP INSURANCE FOR ENVIRONMENTALLY SENSITIVE AREAS

Ms. Kaptur: A number of agricultural groups and wildlife organizations have, on numerous occasions, asked the Secretary to use existing USDA authority to eliminate crop insurance incentives some call fiscally unsound and that encourage the continued conversion of grassland to cropland. This could not only help protect dwindling wildlife habitat but also save tax dollars- potentially millions every year. More than a year ago, the Secretary responded that RMA had established a working group to address this issue. What has been the progress of this task group to date?

Response: The Native Sod Workgroup analyzed RMA legislative authorities, policy and procedural directives, concluding that insurance experience on policies or units with newly broken land that was insured by written agreement is generally consistent with that of policies or units that did not have newly broken land. The workgroup proposed recommendations for potential implementation in the 2012 crop year that are currently being evaluated for programmatic impact. These proposals would enhance agency tracking of acreage and potentially minimize the production guarantee on certain native sod acreage, primarily that acreage that can be determined to be broken out for the very first time. Although the native sod workgroup has concluded its initial analysis of newly broken land, the workgroup continues to assess comments and recommendations regarding these issues as they arise and continues to assess alternatives within our authorities.

Current crop insurance regulations provide insurance coverage for crops previously enrolled in a USDA program, such as the Conservation Reserve Program (CRP), however, for other land breaking these regulations provide that if more than 5 percent of the acreage in the insurable unit has not been planted and harvested, or insured, in at least one of the three previous crop years, that a new breaking written agreement is required.

New breaking written agreements are individually underwritten by RMA staff. These written agreements include requests for land previously cropped but not in one of the previous three years and some requests for land which has not previously been in crop production.

Prior to issuing a written agreement, RMA considers elements such as the date land was broken out; agricultural experts acceptability; soil types and productivity indexes and moisture availability. Additionally, written agreements 1) disallow prevented planting coverage; 2) usually require crop inspections where the crop must appraise at 90 percent or higher of the insurance yield guarantee; and 3) RMA generally assigns a percentage of the county average transitional yield as the available yield coverage for the initial year if soil types/productivity indexes are reduced.

Additionally, the 2008 Farm Bill prohibited USDA from offering crop insurance or NAP coverage for 5 years on native sod within the Prairie Pothole National Priority Area, which was broken out for crop production. However, the provision was only applicable if elected by the Governor of the state. To date, no Governor has elected to make the provision applicable

SOD SAVER PROGRAM

Ms. Kaptur: During farm bill discussions, estimates on the savings of the Sod Saver program showed 10 year savings would range from $1.4 billion (2002 CBO) to a low of $119 million (2008 CBO score for just crop insurance subsidies). A 2009 estimate puts the annual savings at $299 million, or $2.99 billion over a 10 year period. With the possibility of large savings for this action, has USDA provided updated estimates on savings if these changes were implemented?

Response: The 2008 Farm Bill revised Section 508 of the Federal Crop Insurance Act to make newly broken sod ineligible for crop insurance coverage during the first five years of planting - at the election of each state's Governor. This applies only to the states in the Prairie Pothole National Priority Area. So far, none of the Governors has elected to allow this provision to apply to their state. As a result, USDA has not produced an estimate of savings from this provision.

Ms.Kaptur: Has FSA coordinated with the Chief Economist or the Economic Research Service in conducting further analysis not just of the economic savings of limiting crop eligibility for sensitive environmental lands but the economic consequences on the environment from farming environmentally sensitive lands under question?

Response: Yes. The Economic Research Service is developing a report on the consequences of implementing the Sod Saver provisions in the 2008 Farm Bill. That report is expected to be released later this year.

WITNESSES

INDEX